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The Small Business Adviser

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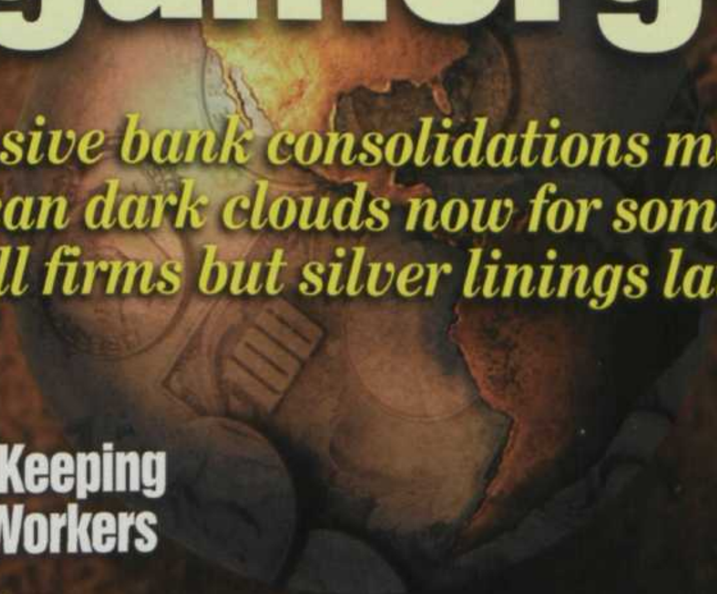

Massive bank consolidations may mean dark clouds now for some small firms but silver linings later.

- Finding And Keeping Entry-Level Workers
- What's New In '99 Luxury Cars
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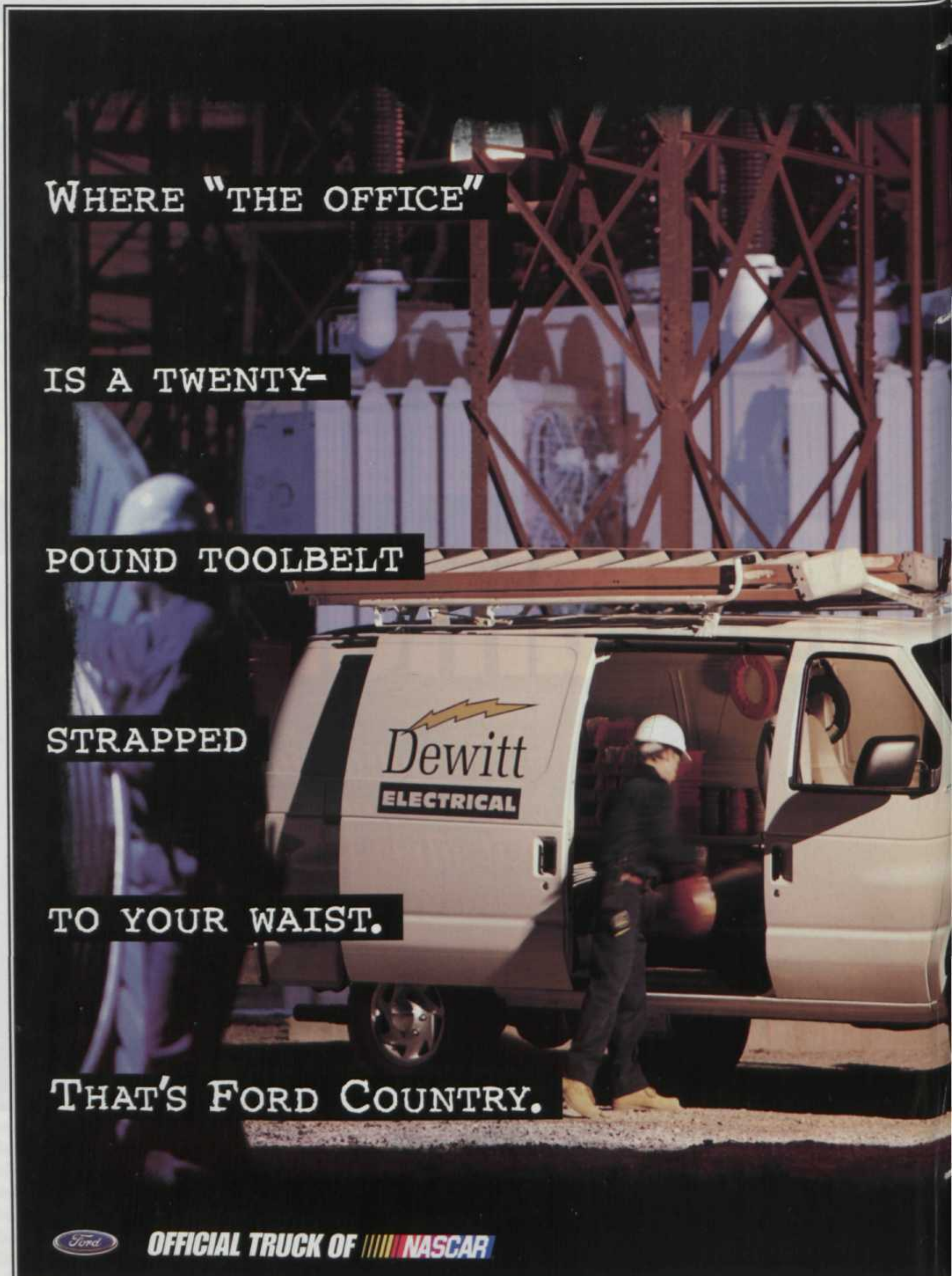
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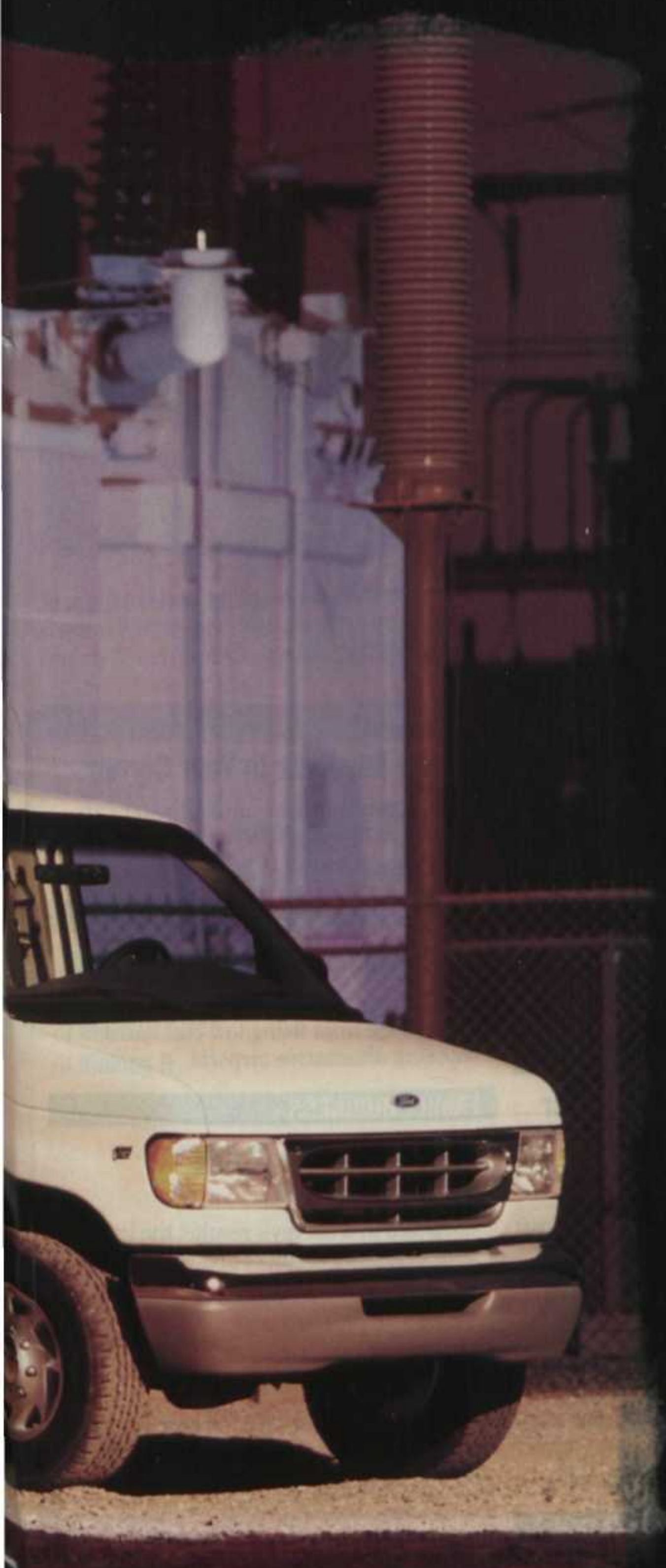

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After six bank mergers *affecting his company, cabinet-products wholesaler John L. Courter went shopping for—and found—a bank whose niche his company fit. With similar determination, small firms can adjust to the wave of financial megamergers. Cover Story, Page 14.*

Luxury-car sales *are booming, and the '99 models are arriving with sophisticated electronics. Special Report, Page 52.*

VOL. 86, NO. 11

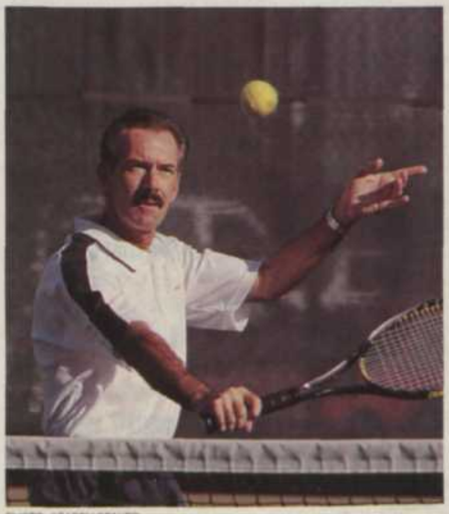

PHOTO: ©BARRY STAVER

To improve service, *tennis-firm executive Terry Boyle uses software that tracks customer purchases. Small Business Technology, Page 49.*

DEPARTMENTS

Cover Design: Alberto Pacheco

Nation's Business (ISSN 0028-047X) is published monthly at 1615 H Street, N.W., Washington, D.C. 20062-2000. Tel. (202) 463-5650 (editorial). Advertising sales headquarters: 711 Third Ave., New York, N.Y. 10017. Tel. (212) 692-2215. Subscription prices (United States and possessions): one year, $22; two years, $35; three years, $46. For Canadian and other foreign subscriptions, add $20 per year. Periodicals postage paid at Washington, D.C., and additional mailing offices. Canadian GST Registration # R131556169. **POSTMASTER:** Send address changes to ***Nation's Business***, 1615 H Street, N.W., Washington, D.C. 20062-2000. **To inquire about your subscription or to make a change of address, please call 1-800-638-6582.**

Printed in the U.S.A.

Editor's Note

Exciting Times Ahead

Nation's Business kicked off this fall with a new publisher, Robert J. Perkins. Perkins brings a wealth of marketing expertise from Playboy Enterprises Inc. in Chicago—where he was executive vice president, chief marketing officer, and head of strategic development—and from other senior positions in the corporate, ad agency, and political arenas.

PHOTO: T. MICHAEL KEZA

Robert J. Perkins

He held senior marketing positions with Calvin Klein, Pizza Hut Inc., and Q Direct, a database-marketing subsidiary of QVC Inc., and he rose to president and chief operating officer of the New York office of the advertising firm Chiat/Day/Mojo.

From the late 1970s through the mid-'80s, he was finance director for the Republican National Committee, chief finance director for the National Republican Senatorial Committee, and executive director of the Tennessee Republican Party. Perkins also served as a captain and instructor pilot in the Air Force.

His plans include heightening the magazine's visibility, boosting advertising revenue, and enhancing the magazine's design and content.

Stay tuned. Over the coming months, we at *Nation's Business* plan to bring you a magazine that is more lively, interesting, and useful than ever.

Our cover story, written by Editor-At-Large Sharon Nelton, examines a trend that many business owners are experiencing firsthand—intense global consolidation in the banking industry. Nelton's article, beginning on Page 14, details how small companies are being affected and offers recommendations on how to navigate in this changing market. The story also looks at some big banks' plans to woo small-business customers. We hope you'll find hints here that will prove helpful when you're seeking capital.

Mary Y. McElveen

Mary Y. McElveen

Editor

Nation'sBusiness

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Letters

OSHA Inspections And Workers' Comp Costs

"When OSHA Calls," your September cover story, made it seem as if Minasa Construction Co. in Lyndhurst, N.J., had a six-figure increase in its work-

ers' compensation insurance premium because of an inspection by the Occupational Safety and Health Administration and a resulting fine.

Without getting into the matter of judging OSHA, it should be noted that an OSHA inspection (with or without a resulting fine) in and of itself plays no role in determining the premium charged for workers' compensation insurance.

What probably happened is that medical bills (and indemnity costs, if any) for the treatment of Minasa's employees exposed to lead were later included in the calculation of the company's "experience modification," which is a major component in determining an insured's workers' compensation premium.

Tony Antonico
President
Antonico Insurance & Consulting Group
Hooksett, N.H.

Help Is A Phone Call Away

Regarding "When OSHA Calls," here is a bit of advice that business owners might find valuable:

When preparing or reviewing the company's injury- and illness-protection program, call the company's carrier for workers' compensation or general-liability insurance. Request a risk-assessment inspection by the carrier's loss-control agent.

This service usually is included in the company's premium and can also be used to the company's advantage by earning extra safety credits in the premium.

In my experience, these inspectors are very helpful, are trained specifically for Occupational Safety and Health Administration inspections, and are industry-specific.

Nichole L. Torsey
Director of Risk Management
Cross Petroleum
Redding, Calif.

Advice For Employers: You Get What You Pay For

I wanted to let you know that I totally agree with Holly Johnstone in "Casting A Skeptical Eye On The Worker Shortage" [Letters, August] when she refers to the fact that many businesses are targeting college students and retirees for recruitment.

I had a small business during college, and I can't tell you how many times other business owners approached me and inquired about college students who would work for $5 an hour.

Until employers realize that you get what you pay for, they will always be searching for skilled labor. There are people available out there—you just have to be willing to pay them a decent wage.

And this intern thing—what a joke! Who in their right mind would ever work for free?

Karla M. Cummings
Houston

Profit-Sharing Plans: One Firm's Success Story

I read with interest "Small-Firm Pension Gap Reflects Lack Of Demand" [Small Business Financial Adviser, September].

I am president of a small business (31 employees) in a very competitive industry, manufacturing pressure-sensitive labels. The company was established in 1965.

In 1982 we established a profit-sharing plan. Leaning to the conservative side, we felt we could achieve the least risk by having an insurance company administer the plan.

In each of the past 16 years we have contributed 7 to 12 percent of each employee's total salary to the plan. We have earned annual interest of between 6.3 percent and 10.2 percent, and there is now $2 million in the plan. The cost for outside

administration and in-house paperwork in 1997 was less than one-fifth of 1 percent of contributions.

Yes, 75 percent of our employees say they would rather see the contributions in their weekly paychecks. However, those that leave the company are very happy to get the money. Only a few roll it over into an individual retirement account.

In spite of the great growth in stocks in the past 16 years, our profit-sharing administrator says that we have made out better than most of his other clients who invested in the market.

W.P. Webster Jr.
President
Alcop Adhesive Label Co.
Beverly, N.J.

Another Place To Turn On The Year 2000 Problem

"Counting Down To The Year 2000" [August] did an excellent job of highlighting the year 2000 problem and the risks for businesses that fail to prepare.

The article rightly called attention to the pervasive problem of computer chips embedded in building systems and equipment. As the association representing commercial-real-estate interests, the Building Owners and Managers Association International (BOMA) recognizes the need to assess and remedy potential problems in this area.

However, the "Where To Turn" article that accompanied the main story did not mention a valuable resource. More than 15,000 copies of BOMA's *Meeting the Year 2000 Challenge: A Guide for Property Professionals* have been distributed. This publication enables business owners to manage the embedded-systems issue through an eight-step plan that includes a variety of model forms and checklists.

The guidebook, which costs $20 (quantity discounts are available), can be ordered by calling 1-800-426-6292 or through BOMA's World Wide Web site, at *www.boma.org.*

Gerard Lavery Lederer
Vice President/Government and Industry Affairs
Building Owners and Managers Association International
Washington, D.C.

Seeing Some Dangers In No-Fault Insurance

I was outraged at the lack of thought in "Auto-Insurance Bill Should Get Green Light" [Editorial, August].

Perhaps some people don't mind allowing Big Brother to run their affairs, but I refuse to allow my freedom of choice to be eroded by legislation such as the Auto Choice Reform Act. Your editorial touts the so-called benefits of such a no-fault-insurance program without any mention of its dark side.

As an insurance agent in a state where the law still protects victims of auto accidents, I frequently have to explain to my customers the consequences of getting hit by a reckless or drunk driver in a state with no-fault laws.

Proponents *of the Auto Choice Reform Act say it would mean lower insurance costs for consumers and less money for lawyers.*

Here's an example: An elderly couple on vacation gets broadsided when the driver of a 15-year-old rust bucket runs a stop sign. The couple's vehicle is a total loss, and they both suffer back injuries that require thousands of dollars in medical treatment but won't heal properly.

The couple is out their deductible and may lose their discount for having had no accidents, while the person who hit them—who probably had no physical-damage coverage on his own vehicle—doesn't even bother to file a claim with his insurance company, unless he was injured. He simply buys another $200 car and continues to pay the same premium for auto insurance.

I'm no fan of giving the lion's share of claim dollars to attorneys, but I refuse to let someone else give me a black eye and then walk away while I get stuck with the bill.

Carl J. Sharp Jr.
Insurance Agent
Liberty, Ind.

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ENTREPRENEUR'S NOTEBOOK

By Linda Field

A Little Leeway Goes A Long Way

My idea of working is to produce results, move on to the next project, then produce more results. But in many traditional business structures, this approach is too often diluted by meetings that aren't necessary, office politics, and various interests within the company competing against one another.

My desire for productivity without these hindrances led me to form my Houston-based marketing and public-relations firm, Field & Associates, in 1988. The company, which does work for national clients including Chantal Cookware Corp. and coffee-maker manufacturer Capresso, Inc., gives its employees the freedom to work from home and set their own hours.

Clearly, many businesses don't lend themselves to such flexible work arrangements. But just about any job whose principal requirement is access to a computer and a phone, or that primarily involves out-of-office visits to clients, can be done with such flexibility.

Here are some strategies for making flexible job arrangements work to your advantage:

Create an environment based on self-motivation and results. Flexible, home-based work arrangements succeed only if employers are comfortable assessing a worker's performance and commitment primarily by the results produced, not by the time spent on the job during "normal" business hours. Employees must feel that they have the freedom to work when it's best for them.

Such arrangements can take a burden off managers, too. With the freedom my employees have, they tend to solve problems that might otherwise fall to me. Additionally, I was able to retain a valued employee I otherwise would have lost when she moved to another city.

Linda Field is owner and principal of Field & Associates in Houston. She prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

PHOTO: ©PAUL S. HOWELL

There's no such thing *as "normal" business hours at Linda Field's marketing and public-relations firm.*

Relax, but don't abandon standards. In flexible work situations, employees rarely need to dress as they would for an office job, but it's important that they meet the same professional and performance standards that would be expected at an office.

At the start of a nontraditional work arrangement, make clear your expectations, including such things as when your employees should be available for meetings, the need for phone calls to be returned promptly, and how tolerant you will be of distractions such as tending to children.

Stay in touch. For employees, eliminating the daily commute gives them more time to devote to work—and that helps them get better results. But there won't be the face-to-face communication that most of us are used to getting in an office, so use electronic mail, voice mail, conference calls, faxes, and delivery services to keep in touch. My employees and I communicate many details each day via e-mail.

Make flexibility enhance performance. Employees want balance in their lives and the flexibility to achieve that balance.

That means, for example, that they should be free to write proposals when they feel most productive and creative—late at night or early in the morning, for instance—and to work fewer but longer days each week.

By offering flexible scheduling and the chance to work from home, employers can not only take advantage of a worker's strengths but also gain an edge in hiring. Our approach to work has resulted in a team of energetic self-starters and has helped bring strong responses to employment ads, which gives me a large pool of applicants.

Make it a win-win situation. Some clients—and some co-workers—won't be comfortable with nontraditional work structures. But others will see the benefits. Most clients, for example, realize that lower overhead makes for lower prices.

Be sure to address the concerns of clients and co-workers directly and to emphasize the greatest advantage to them—that the time and energy saved while getting to the job means more productive time on the job. NB

WHAT I LEARNED

Giving employees the freedom to work from home and set their own hours can boost productivity.

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Dateline: Washington

Business news in brief from the nation's capital

By James Worsham

FEDERAL REGULATION

Business Loses First Round In Environmental-Justice Fight

Under pressure from opponents, Shintech Corp. has abandoned its quest to gain approval to build a chemical plant in a heavily industrialized rural area of Louisiana.

The proposed plant had become the first test case of the U.S. Environmental Protection Agency's still-developing policy on environmental justice, which holds that a disproportionate number of industrial plants and waste sites are located in poor and minority neighborhoods. (See "The EPA's New Reach," October.)

Shintech had planned to build a $700 million polyvinyl chloride (PVC) plant, employing 255 people, in St. James Parish, between New Orleans and Baton Rouge along the Mississippi River. Although there was strong support for the plant in the parish (parishes are Louisiana's equivalent of counties), there also was opposition.

A group of opponents filed a complaint with the EPA alleging that state environmental regulators violated the 1964 Civil Rights Act in approving the plant. The federal environmental agency had not yet ruled on the petition.

Shintech now plans to build a smaller plant southwest of Baton Rouge in Plaquemine, also along the Mississippi River. The plant would be linked directly to a nearby Dow Chemical Co. plant, from which it would draw raw materials. The $250 million plant would have 75 employees.

In a statement, EPA Administrator Carol Browner commended Shintech for its plan to involve the community and community groups before seeking a permit for the plant in Plaquemine. "The principles applied to achieve this solution should be incorporated into any blueprint for dealing with environmental-justice issues," she said.

William Kovacs, vice president for environmental policy at the U.S. Chamber of Commerce, says the EPA has set itself up as a "national zoning board." He adds: "[The] EPA has now established itself as having the authority to determine what facilities can be located in any particular community, the site of the facility, and the number of workers." ■

PHOTO: T. MICHAEL KEZA

A filing with the EPA *by opponents led Shintech Corp. to abandon plans to build a chemical plant in a heavily industrialized area near the Mississippi River in St. James Parish, La.*

LABOR

Anti-Salting Legislation Tastes Defeat In Senate

Legislation that would have permitted employers to refuse to hire labor-union organizers—the so-called anti-salting bill—was killed in the Senate in September.

In the tactic known as salting, union members get jobs at nonunion businesses and work from the inside to organize workers. The U.S. Supreme Court has upheld the tactic.

The measure died after Senate backers failed to gather the 60 votes required to cut off debate and bring the bill to a vote. The vote was 52-42. The House had passed the measure 202-200 earlier this year.

Minimum-Wage Increase Defeated In The Senate

An effort to raise the minimum wage by $1 an hour over two years—to $6.15 an hour in January 2000—was rebuffed by the Senate in September on a 55-44 vote.

The most recent increase in the minimum wage took effect Sept. 1, 1997, when it was raised from $4.75 an hour to $5.15. The latest proposal, sponsored by Sen. Edward M. Kennedy, D-Mass., would have boosted the minimum wage to $5.65 an hour in January 1999 and $6.15 an hour a year later. Business groups, including the U.S. Chamber of Commerce, had opposed the increase, saying it would hinder economic growth and the creation of jobs.

Final Action Nears On Increase In Quota Of Skilled Immigrants

Employers who have had difficulty finding highly skilled workers in the tight U.S. labor market will be able to look overseas for such employees now that Congress has passed legislation to increase the number of visas for highly skilled immigrants.

The House voted 288-133 in late September to raise the cap on H-1B visas, which allow foreign specialty-occupation workers into the country for up to six years. The Senate approved a similar measure in mid-May. That's when the annual allotment of 65,000 H-1B visas was exhausted for fiscal 1998, which ended Sept. 30.

The House bill would increase H-1B visas to 115,000 for fiscal 1999 and fiscal 2000; the cap would be 107,500 for fiscal 2001 and thereafter would revert to 65,000 a year. Senators were expected to accede to the House measure and send it to President Clinton before Congress adjourned in early October. Clinton had said he would sign the legislation into law.

—David Warner

INCOME GROWTH

Households With Lowest Income Have Had Fastest Income Growth

One might think that with the surge in the number of jobs for high-tech and other high-salaried workers, only U.S. families that were already well-off have had increased opportunities. But from 1993 through 1996, families in the bottom 20 percent of household income experienced the fastest increase in income.

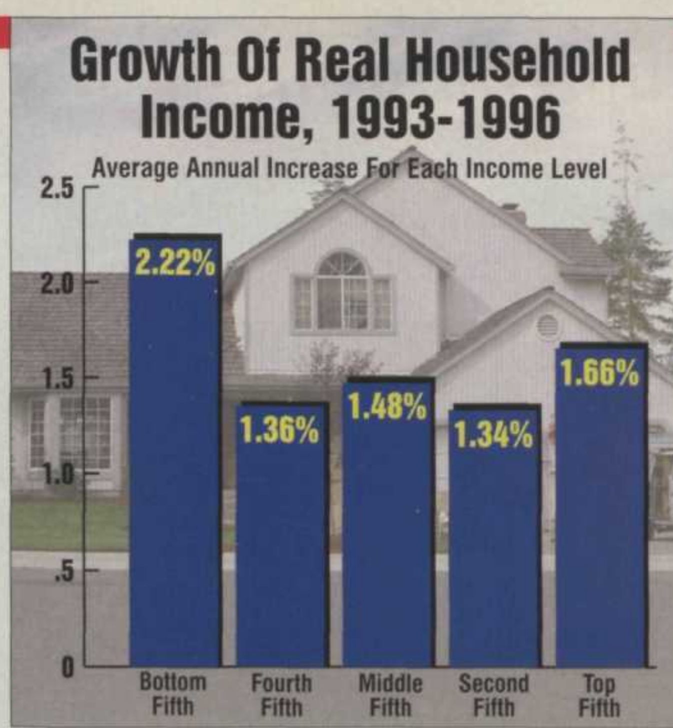
While families in the top 20 percent of household income have seen their combined salaries go up by an annual average of 1.66 percent, those in the bottom fifth received an average annual increase of 2.22 percent, according to a recent report by the Employment Policy Foundation, a Washington-based organization that tracks workplace trends. (See the chart.)

The foundation analyzed nationwide data from the U.S. Bureau of Labor Statistics that showed rapid job growth in high-paying professional positions and also in relatively low-paying service jobs.

The increase in service jobs, however, did not mean simply that more people were receiving wages at or close to the federal minimum. The increase was partly a result of workers moving to better jobs—such as supervisory posts—in their industry sector, according to the foundation.

"The view that American workers and their families are still less well-off than they were 25 years ago is simply wrong," says Kenneth L. Deavers, the foundation's chief economist.

—Steve Bates



SOURCE: EMPLOYMENT POLICY FOUNDATION TABULATIONS OF U.S. CENSUS BUREAU DATA

ECONOMIC LEGISLATION

Fiscal 1999 Spending, Tax Bills In Limbo As Adjournment Nears

It went right down to the wire—and beyond—when it came to forging federal spending and tax-cut plans for fiscal 1999, which began Oct. 1.

As lawmakers prepared to leave Washington to return home and campaign for the Nov. 3 elections, here is where things stood at press time:

■ Congress had cleared fewer than half of the 13 regular appropriations bills for fiscal 1999, and President Clinton had signed only one of them. The rest, including spending for most health, education, and welfare programs,were expected to be bundled into one large measure.

■ The Republican majority had given up on its five-year, $80 billion tax-cut bill. It had passed the House Sept. 26 on a 229-195 vote. But there was not enough support in the Senate to ensure passage, and the president had vowed to veto it. Further complicating the issue, Senate Democrats were prepared to offer an alternative $25 billion tax-cut plan.

The GOP tax-cut proposal would have eased the so-called marriage penalty, accelerated the phase-in of full deductibility of health-insurance premiums for the self-employed, and speeded up the phase-in of the $1 million estate-tax exclusion.

It also would have renewed a number of tax credits—typically known as "extenders"—important to business. They include credits for research and experimentation and for hiring welfare recipients and other disadvantaged people.

At press time, there were plans to separate the extenders, which have bipartisan support, from the tax-cut measure and move them through Congress as a separate bill just prior to adjournment.

■ Republican congressional leaders and the White House both were taking credit for what was projected to be an approximately $70 billion surplus for the past fiscal year, the first federal budget surplus since 1969.

Bankruptcy Bill's Prospects For Passage Appear Good

At press time, Congress appeared headed toward enacting bankruptcy-law reforms that would make it more difficult for consumers to wipe out their debts.

However, House and Senate conferees had not resolved differences between the bill passed by the Senate on Sept. 23 and a more restrictive bill passed earlier in the year by the House. The White House was supporting the Senate bill.

The Administrative Office of the U.S. Courts reports that there were 1.43 million U.S. bankruptcies in the year that ended June 30—about four times the 1985 total. The U.S. Chamber of Commerce says these bankruptcies cost U.S. businesses about $40 billion annually.

Two of the U.S. Bankruptcy Code's chapters are most commonly used by consumers declaring bankruptcy. Chapter 13 allows the debtor to try to pay back debts over three to five years before creditors can repossess his property. Under the more lenient Chapter 7, debts are wiped out after nonessential assets are sold to pay debts.

The Senate bill would allow a judge to move a Chapter 7 case to Chapter 13 upon determining that the filer could pay more than 30 percent of unsecured debts, such as credit-card debts, within three years.

The House bill would bar filers from Chapter 7 if they exceeded the median family income of about $50,000 and could pay more than 20 percent of unsecured debts within five years. ■

INTERNATIONAL TRADE

Fast-Track Measure Dies; IMF Funding In Question

An attempt to grant expedited consideration to trade agreements—known as fast-track authority—was rejected by the House on Sept. 25 by a 243-180 vote.

Fast-track trade agreements can only be voted up or down by Congress; they cannot be amended. Every president since 1974 has had fast-track authority, but it was not renewed after lapsing in 1994.

Meanwhile, hopes for an additional credit line for the International Monetary Fund appeared to brighten at press time. IMF coffers have been depleted as the fund has dealt with financial crises in Asia, Latin America, and Eastern Europe.

Although $17.9 billion has been authorized by Congress, only about $3.4 billion had been installed in appropriations bills. Negotiations on setting restrictions on using the additional funds were continuing. NB

Managing Your Small Business

Sharing the rewards of ingenuity; professionalism at home; staking a claim in a land of giants.

By Thomas Love

EMPLOYEE COMPENSATION

Incentive Pay Can Bolster A Company's Revenues

If the nature of your business lets you document the impact of worker ingenuity on the bottom line, it might be worthwhile to incorporate incentive pay into your employee-compensation package.

Monthly incentive pay has proved successful at Total Comfort Care in Camp Springs, Md., says its president, Jim Betz. The firm has contracts to manage the heating and air-conditioning equipment in 40 apartment buildings in New York, New Jersey, Pennsylvania, Maryland, and Washington, D.C. "We take over the mechanical plant—including preventive maintenance, operation, and system tweaking," Betz explains.

The firm guarantees the buildings' owners a specified level of monthly energy-cost savings compared with their costs before the contract. "If we do not operate the plants properly" and thus fail to deliver the promised savings, says Betz, "that comes out of our pockets."

He adds, however, that when Total Comfort Care's building managers hold energy use below the levels set by the company, they share in the savings. "We pay a bonus ... on a monthly basis so they can actually get the money in their pockets," Betz says. "This motivates them to get out there and really look for ways [to save energy], because they know they're going to get something out of it right away."

Betz adds: "I strongly believe in sharing the wealth with the technical people. They do the work. They are the ones out there getting dirty. I feel they should participate in any profits we make.

"We have such a variety of mechanical equipment that every day is a personal challenge to go out and discover something new that's going to result in savings for the company and put some additional money in their pockets for their families." ■

PHOTO: ©REGIS LEFEBURE

Rewarding employees *for cost-trimming ideas stimulates revenue, says Jim Betz, president of Total Comfort Care, a Camp Springs, Md., firm that manages heating and cooling systems in buildings such as this one in Washington, D.C.*

PRODUCTIVITY

Organize Your Home Office And Get More Work Done

To have a productive home office, be sure that it is in fact an office—not a corner of the kitchen, an end of the bedroom, or a section of the living room. That's the advice of Lisa Kanarek, founder of Everything's Organized, a Dallas-based consulting firm specializing in office organization.

"Treat a home office the same way you would a corporate office. Find the right space and set it up for business," advises Kanarek, author of *Organizing Your Home Office for Success: Expert Strategies That Can Work For You* (Blakely Press, $14.95).

"Unless you can block off your work, you are going to have to gather up everything at the end of the day or things will be scattered and lost," she says. "You need a permanent home for your office so the mail comes to one place and correspondence leaves from one place. Otherwise, things get scattered, because it's so easy to leave things all over the house.

"Of course, if you're working on a special project, sometimes it's easier to leave the home office and spread everything out on the kitchen table, but don't do it on a regular basis."

Kanarek offers other suggestions:

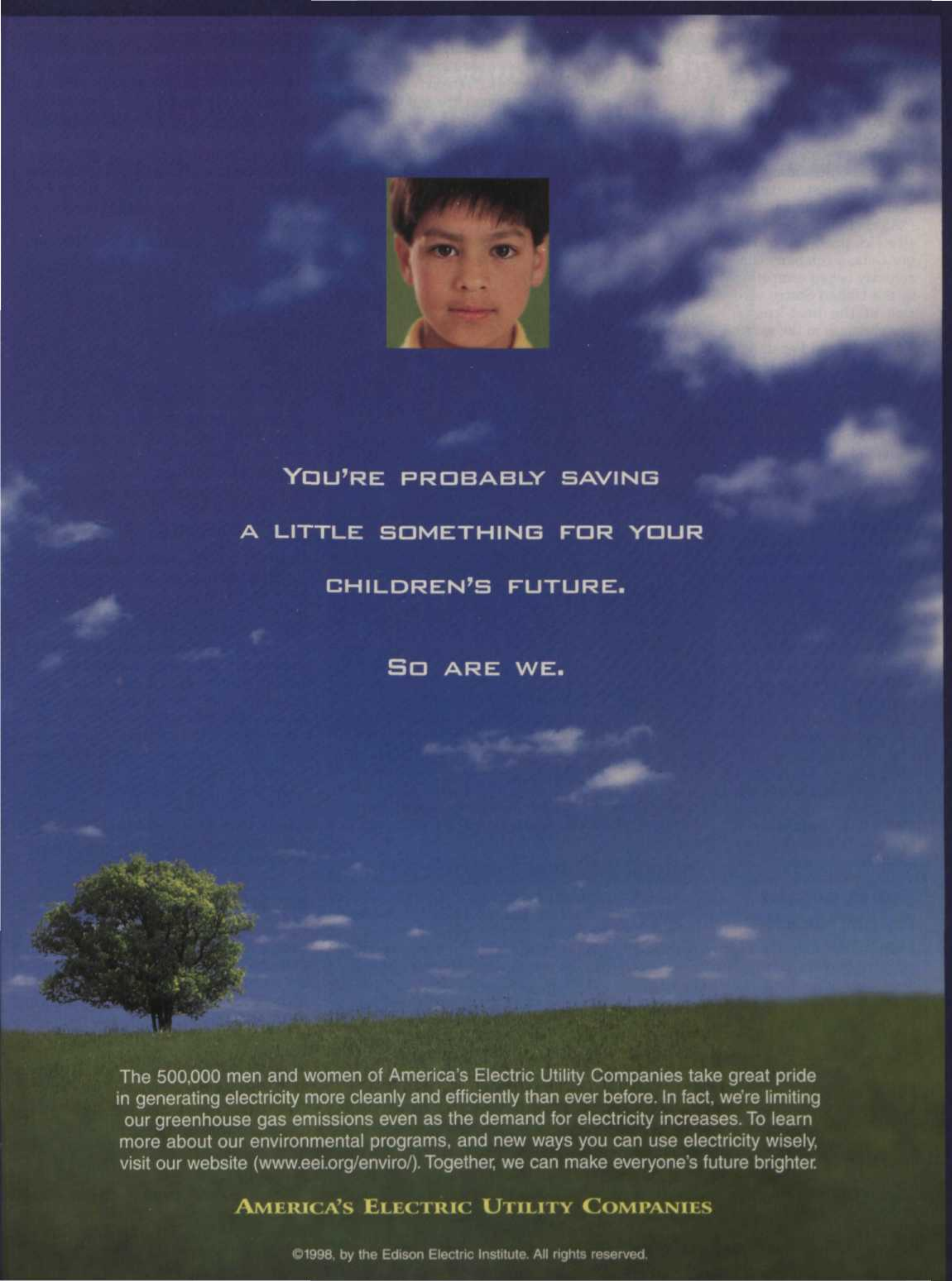
Invest in the best computer equipment you can afford. And don't scrimp on the printer. Even if your computer is top-of-the-line, it's not likely to improve the client's impression of your work if the final version looks like it was done on a cheap printer, she says. "Most clients see what comes out of the home office, not the home office itself."

Have a dedicated business telephone line. It's not professional to have your spouse, children, or household visitors answer a business phone.

Get a good voice-mail system or a high-quality answering machine. Have a concise and clear message, and tell people how to bypass it to leave a message. If you have a World Wide Web site, reference it. Also, ask callers to tell you the best times to return calls.

Don't use call waiting. This feature forces you to make judgments constantly about who is more important, the person on the line or the person calling.

More tips are available at Kanarek's Web site, *www.everythingsorganized.com.* ■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COMPETITIVENESS

Penetrating A Market Dominated By Big Firms

Many small businesses face the challenge of having to compete with larger, better-established companies. Although this can be extremely daunting, particularly for entrepreneurs just starting out, such competition is not insurmountable.

Alexis Dormandy, executive vice president of Virgin Cola, a company that recently began competing in the United States with two of the best-known brand names in the world, Coca-Cola and Pepsi, has some insight into taking on the big guys.

Don't do what they do, he says, because they'll be better at it. "We're never going to be better at being Coke than Coke is, whether you're talking about marketing, distribution, public relations, or anything else," Dormandy says. "Imitation is a no-win situation." Rather, he says, do something different that sets your company apart.

Also, nurture an organizational culture that encourages innovation, he says. "We tend to run a company contrary to a lot of businesses where people are put into their boxes and have their jobs narrowly defined. People must have the freedom to go out and try new things, even if they will make mistakes." Dormandy adds that employees will also get some things right. Moreover, he says, "You don't punish people for getting things wrong if they're trying their best."

Although Virgin Cola is not a small start-up—it's part of the British-based Virgin Group, a global collection of enterprises that include Virgin Atlantic Airways—the soft-drink firm began U.S. operations just last May. Dormandy says that whatever innovative steps the firm takes to differentiate itself in the market must be based on a solid foundation. He cites the example of Virgin Atlantic: "You can have an airline that has TVs in the back of its seats and offers massages and pedicures, but the plane better have two wings, engines, the best pilots you've ever seen, and good service," or people won't fly on it.

Virgin Cola, launched in late 1994 and now the third-largest cola brand in the United Kingdom, established its U.S. headquarters in Los Angeles and is sold in California and in the Boston, New York City, Baltimore, and Washington, D.C., areas.

"We're trying to stick to those markets for the moment, but we will very shortly be expanding into other areas," Dormandy says. "The key thing is getting what we're doing right before we start rushing out to do anything else. You don't want to spread yourself so thin that you end up being average at a lot of things." ■

PHOTO: ©BART BARTHOLOMEW

Guided *by Executive Vice President Alexis Dormandy, British-born Virgin Cola announces its U.S. marketplace arrival with a "Say Something" ad campaign.*

FINANCIAL MANAGEMENT

Steps For Improving Your Firm's Cash Flow

Maintaining a steady, positive cash flow requires juggling every aspect of a business, from riding herd on accounts receivable to managing inventory. This complex, detail-oriented process can be a challenge for a small business.

Here are tips from American Express Small Business Services, a component of New York City-based American Express Co., that can make cash-flow management less daunting:

■ Organize billing schedules for faster receivables. Overdue accounts should be flagged immediately.

■ Stretch out payments to suppliers, taking advantage of the maximum time suppliers allow for payment.

■ However, take advantage of early-payment incentives if they are offered. And if suppliers don't offer this incentive, ask for it.

■ Convert project-by-project clients to a retainer relationship whenever possible.

■ Re-evaluate your prices, and don't be afraid to raise them periodically. Customers generally expect small, regular increases.

■ Don't buy all in one place; doing so can limit your ability to take advantage of special deals when they arise.

■ Tighten your inventory; overstocking can tie up significant amounts of cash.

■ Consider leasing instead of buying, which can free up cash and lines of credit that might have better uses.

American Express Small Business Services offers tips such as these for small companies at its World Wide Web site, *www.americanexpress.com/smallbusiness.* ■

NB TIPS

Keep Your Laptop Clean

Business travelers often rely heavily on their laptop computers, yet most fail to keep them clean—a failure that can compromise the machines' operation, according to Memorex in Santa Fe Springs, Calif.

The company, which makes computer accessories, notes that the dust bunnies found under desks are fond of a portable computer's disk drive and screen. Memorex advises using an optical-quality cloth regularly to remove dust, dirt, smears, smudges, and fingerprints from laptops.

Compressed air will remove loose dirt and lint from delicate circuits and tight spaces, such as between keyboard keys, and foam-tipped swabs are perfect for deep keyboard cleaning, the company says.

How To Get A Lawyer

Are you facing legal problems, or do you need a lawyer for any other reason but just don't know where to find one? The American Bar Association's Lawyer Referral Program might provide the answer.

A section of the ABA's World Wide Web site, at *www.abanet.org/referral,* provides the addresses of state and local bar associations and lawyer referral services. People contacting one of the referred groups will be interviewed to determine if they need an attorney or can be helped more appropriately by a community organization or a government agency.

If they are referred to an attorney, they will receive a half-hour initial consultation free or for a nominal charge that is used to help support the referral service. NB

COVER STORY

Sizing Up The Megabanks

By Sharon Nelton

After the small community bank she had been using was bought out by a large bank in 1992, Lea Argiris, president and CEO of Barrett Manufacturing Co. in Chicago, found that her business was not welcome at the new institution. Barrett, which makes and distributes fasteners and anchors used in construction, was considered too small to be a worthwhile customer for the takeover bank.

Argiris hung on to an uneasy relationship with the bank for the next four years. But bank actions such as cutting her line of credit to $350,000 from $450,000 and reducing loan payback periods finally persuaded her to look for another lender.

She signed up with a new bank in January 1997. Last spring, however, that bank also told her that her six-employee firm was too small and asked her to leave.

"I'm caught in the second act of the same scenario," says Argiris, who has spent the past several months looking for yet another bank. Her experience makes her decidedly uneasy about the prospect of banks becoming increasingly large in this era of megamergers.

PHOTO: ©TODD BUCHANAN

As her banks grew, *Chicago manufacturer Lea Argiris found that they were less interested in having her business.*

The bank that has asked her to leave doesn't understand her business and doesn't know her, says Argiris. "And it gets worse, in my estimation, when you go to megabanking."

Three mergers of unprecedented size were announced in April and have been completed or are nearing completion.

In early October, Citicorp and Travelers Group brought together a bank holding company and an insurance conglomerate into a new bank holding company called Citigroup Inc. It has $700 billion in assets and expects to offer one-stop shopping on a global scale for banking services, mutual funds, stock-brokerage services, insurance, and mortgages.

NationsBank Corp. and BankAmerica Corp. combined under the Bank of America name in September. With a presence in 22 states, the new institution, with $570 billion in assets, is the first coast-to-coast bank in the United States.

Banc One Corp. is joining forces with First Chicago NBD Corp. to create a powerhouse with $240 billion in assets.

Each of the parties to these mergers was itself the product of an earlier merger.

Relationships Disrupted

In the short term, the shifts in the financial industry are hurting small business, according to economic historian and biographer Ron Chernow. "The problem," he says, "is the disruption of longstanding relationships that small businesses have with [their] banks—because the lending business is ultimately based on trust and the lending officer's personal knowledge of the small-business owner and the business itself."

But he and others believe that the massive consolidations will bring positive results in the long term.

Chernow, based in Brooklyn, N.Y., is the author of a current bestseller, *Titan: The*

Small-business owners are frustrated by the wave of mergers in the financial-services industry, but they can establish solid banking relationships with these larger lenders.

Life of John D. Rockefeller, Sr. ($30, Random House), and a 1997 book, *The Death of the Banker* ($12, Vintage Books), which traces the history of investment banking in the United States in this century.

"My real sense," says W. Kenneth Yancey Jr., a former banker, "is that these mergers are going to ultimately benefit small business." Yancey is executive director of the Service Corps of Retired Executives (SCORE) Association, a counseling program affiliated with the U.S. Small Business Administration in Washington, D.C. SCORE's services are available free to small companies.

"I think that some of these banks are going to go to great lengths to let people know that bigger is better for everybody, including the small owner," Yancey says.

Banks merge to keep costs and prices down, says the American Bankers Association (ABA) in Washington. One way the new, bigger banks do so is by spreading the cost of new technologies over a larger number of customers. Mergers also help banks reduce risk and give them an opportunity to offer a wider array of services, says the ABA.

Another development in recent years that has led to change in the industry, according to the ABA, is that laws that once prevented many banks from operating in more than one state have been removed or overridden, accelerating interstate banking.

As Chernow indicates, however, one of the most painful aspects of mergers in the short term is the loss of relationships that are valuable to small-business owners. William C. Sawyer, president of Sawyer's Exterminating, a $2.4 million pest-control company based in Rochester, N.Y., ended up with a regional bank after earlier acquisitions of the bank with which his company used to work.

Until 10 years ago, Sawyer had a local loan officer he could count on. Now the loan officer changes "maybe three or four times a year," says Sawyer. "There's seemingly no way to develop any rapport. There's no way to bring them up to speed on what we're doing, where we've been, where we're trying to go—the little nuances of the business. At this point, I don't even know my loan officer's name."

Bank decisions aren't even made in

Rochester, he adds. Loans "are approved in Buffalo, which is an hour and a half away," he says. "Now, there's no one in Buffalo who knows me from Adam." To complicate matters, the bank is a subsidiary of a U.S. subsidiary of a giant, London-based international banking and financial-services organization.

Conventional wisdom says that small-business owners should develop a relationship with their banks and treat them as partners. But nowadays, says Sawyer, "you can't develop a relationship with your banker."

"Financial Supermarkets"

Sawyer and Argiris epitomize the uneasiness and frustration that small-business owners experience in this era of financial-services consolidation—an age when banks become not only enormous but also more globally focused; when technology is bringing about once-unimagined changes in the banking industry; and when institutions that once were separate—insurance companies, stock brokerages, and banks—are blurring into what some observers are calling "financial supermarkets."

In this wave of mergers, says author Chernow, small-business owners face the disappearance of a trusted, "comfortable, avuncular figure whom [they've] worked with for years." In place of that person is a "young hotshot" from the headquarters of an out-of-state bank that took over the business owner's bank.

"This person doesn't know you as a person, doesn't have this intimate familiarity with your business, and all of a sudden your credit line is being reduced or canceled. This seems to me a very real problem in that it happens all the time," says Chernow.

Often after a merger, small-business owners find that they have to prove their creditworthiness all over again to the new bank. Fees for credit cards and other services may rise, and a branch that was conveniently located may close.

If you're a small account, says Diahann W. Lassus, a New Providence, N.J., business

owner who is president of the Silver Spring, Md.-based National Association of Women Business Owners, the costs "can go up because [the new bank is] not as excited about working with you." Lassus is president of Lassus Wherley & Associates, a financial-services firm.

On the upside, Chernow and others emphasize, the megamergers and the entry of an increasing number of companies into the financial-services industry probably will increase the amount of capital available to small businesses.

The national banking system that is emerging is "safer than the kind of local, segmented banking system that we had before, for the simple reason that the system that we had before made local banks prisoners of their local economies," says Chernow. "If oil prices turned down, we'd have a rash of bank failures in Texas. If wheat prices turned down, we would suddenly have a lot of bank failures in Kansas.

"So we never had a national banking system that really took full advantage of the strength and diversity of the American economy."

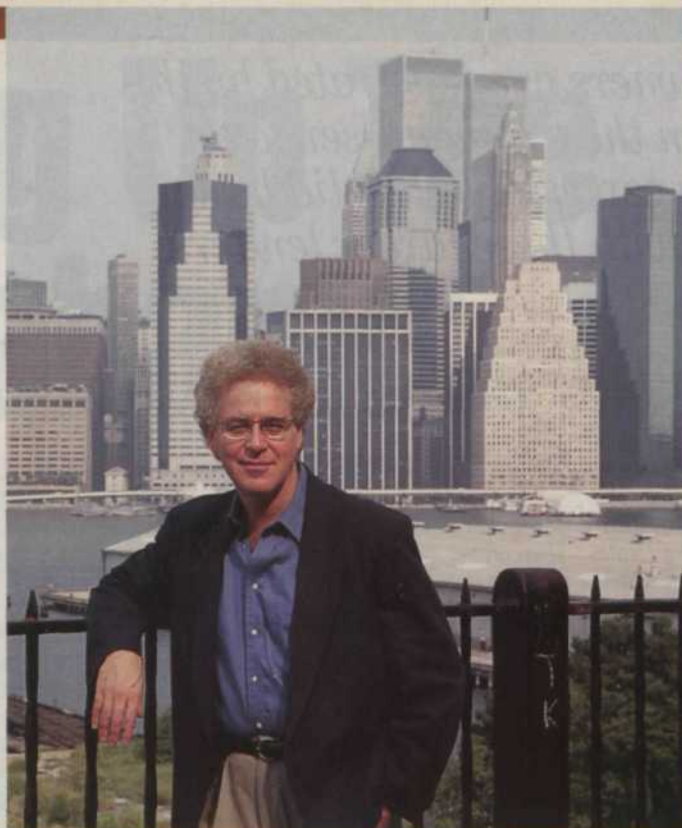


PHOTO: ©TOM SOBOLIK—BLACK STAR

A national banking system *will be less susceptible to localized economic downturns, says New York-based author Ron Chernow.*

As SCORE's Yancey suggests, the megabanks might be eager to prove their worth to small businesses. Speaking at a public meeting conducted by the Federal Reserve Board on the merger application of NationsBank and BankAmerica, Hugh L. McColl Jr., then head of NationsBank, promised that the resulting behemoth would be a model of corporate citizenship. "We will keep decision making in the hands of local bankers and managers who know best how to serve their communities," said McColl, who became chairman and CEO of the new Bank of America.

McColl also said the new bank was pledging $180 billion for small-business lending over the next 10 years. "This is a floor, not a ceiling," he said.

Community Banking Resurges

Although it might appear that competition is decreasing, it is actually increasing. Chernow says he declared last year that "community banking was as dead as a dodo" and that the major casualties would be community banks' traditional small-business customers. "But I'm happy to say that I was dead wrong," he says now.

Instead, Chernow says he sees a "tremendous boom" in community bank-

Breaking Away From Tradition

We don't always bank the way we used to. Nontraditional means of obtaining financing, including offers through direct mail, electronic money transfers, and nonbank bankers, offer many small-business owners opportunities for getting money.

When William C. Sawyer, president of Sawyer's Exterminating, a 37-employee pest-control company in Rochester, N.Y., ended 1996 with a $192,000 loss, his bank froze his two credit lines to their outstanding balances—about $99,000.

Sawyer needed money to get through the winter, his company's slowest season. Although his company had lost money only three times in its 40 years—and two of those losses were only about $100, he says—his bank refused him additional credit.

"Miraculously, an offer came in the mail from Wells Fargo Bank saying that we were preapproved for up to $50,000," says Sawyer. He applied immediately and obtained a credit line for the full amount

from the San Francisco-based bank. That and a home-equity loan carried Sawyer until spring, when business picked up .

Even your community bank doesn't necessarily have to be in your neighborhood. Many small banks are online and accept customers from anywhere. Emma C. Chappell, chairman and CEO of United Bank of Philadelphia, says one out-of-state resident found her small bank on the World Wide Web (at *www.unitedbankofphila.com*) and became a customer. It's not unusual for a potential customer to contact the bank by electronic mail. The bank will send paperwork back and, when the customer is ready, set up an appointment. Chappell says the bank has clients from Washington, D.C., to New York.

Intuit Inc., a financial-software company headquartered in Mountain View, Calif., recently introduced an Internet service (at *www.cashfinder.com*) to help match small-business owners with appropriate lenders. Entrepreneurs can download free software allowing them to fill out an application form and print it for mailing or faxing to the lenders.

There are 10 financial institutions participating in the program, and four credit options are available: lines of credit, loans, credit cards, and leasing.

In recent years, banks have seen increasing competition from nonbank suppliers of capital. Among them are AT&T Capital Business Finance (1-800-221-7252), GE Capital Small Business Finance Corp. (1-800-447-2025), and The Money Store Commercial Lending Division (1-800-722-3066).

ing. In states where large banks have "gobbled up" community banks, he says, "a lot of new, independent banks are springing up."

While the total number of community banks is declining because of consolidation, the Independent Bankers Association of America, based in Washington, says new community banks are proliferating. According to the IBAA, there were 188 new bank charters in the United States last year, the largest number of bank start-ups since 1989. There are about 9,000 community banks nationwide.

Emma C. Chappell, founder and chief executive of United Bank of Philadelphia, sees the trend toward financial giants as an opportunity for her small bank. The "dissatisfaction with service" that small-business owners experience during the merger turmoil, she believes, will lead them to community banks such as hers.

United Bank is an African American-owned bank aimed at reaching underserved communities, "with special sensitivity," Chappell says, "to African Americans, Hispanics, Asians, and women."

The technology advances that facilitate the mergers, she points out, eliminate the need for employees and branches. "The small community banks then have a pool by which they can acquire better-trained employees," Chappell says. "They can also pick up some of the branches that some of the large banks may be letting go because of duplication or because they don't think that the branches are profitable enough."

In fact, because of the merger trend, United Bank—which has $120 million in assets and six branches, all in Philadelphia—is accelerating plans to branch into southern New Jersey.

"There are still a lot of people out there who want the specialized attention" that a small bank can offer, says Chappell.

Local "Boutique" Banks

Some observers see the emergence of a two-tier banking system in which, on the one hand, there will be a small number of megabanks, while on the other, there will be thousands of "boutique" banks—small banks that are owned and controlled locally and that thrive on the local community.

The community banks would continue to provide the special attention that smaller businesses need, and the larger banks would provide more-sophisticated services that small businesses need as they expand—such as foreign-exchange transactions, advice on mergers, and securities offerings.

And sometimes, the small bank and the large bank might work together to help small businesses. United Bank, says Chappell, has formed alliances with large banks such as First Union and NationsBank.

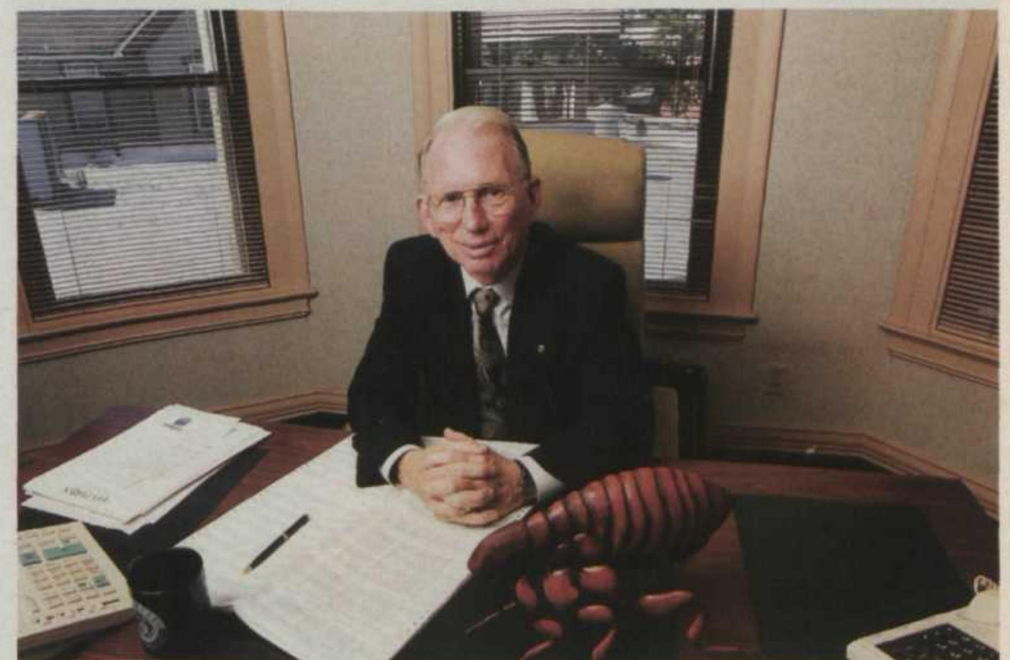
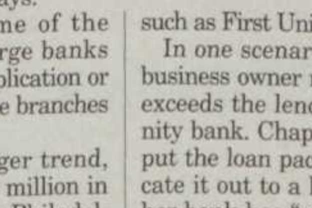


PHOTO: ©FOREST MCMULLIN—BLACK STAR

Establishing rapport *with loan officers can be challenging after banks merge, says William C. Sawyer, president of Sawyer's Exterminating, a Rochester, N.Y., pest-control company.*

In one scenario, for example, a small-business owner might request a loan that exceeds the lending limit of the community bank. Chappell says her bank might put the loan package together and syndicate it out to a larger bank. That means her bank has "gone through all the work and energy to put the package together, to work with the entrepreneur, and to develop [the deal] to a point where another bank would be able to fund it without putting much work into it."



In addition, larger banks invest in her bank, Chappell says, and her bank in turn has a responsibility to lend to the community.

One advantage of such alliances for a large bank is that they help it fulfill its obligations under the Community Reinvestment Act, which was enacted in 1977 to encourage depository institutions to help meet the credit needs of the community in which they operate, including low- and moderate-income neighborhoods.

One reason that large banks should pay attention to small business, a 1997 study suggests, is that small firms mean big business to banks. In fact, it's bigger business than many banks might realize.

Banks often view small business as a market only for products such as checking accounts, short-term investments, lines of credit, mortgages, term loans, and a few other services—altogether, a market of about $33 billion, according to the study. But the market expands to $78 billion if it includes small-business financial services provided by nonbank competitors, such as insurance, payroll processing, and retirement plans.

Add to that the personal financial services needed by business owners and their employees, and the small-business market grows to $188 billion, the study says.

Called "Unlocking Winning Strategies To Serve Small Businesses: Banking the American Dream," the study was conducted by the Banking Administration Institute, a research and education organization in Chicago, and international consulting firm McKinsey & Co., Inc. The report warns banking professionals of "emerging nonbank competition" from brokerage firms, insurance companies, and others, and it says commercial banks have less than half of the small-business market today.

"Yet this is a highly profitable segment for many banks," according to the report. "The economics of serving small business are very tough but incredibly rewarding for those who get it right."

In fact, small-business lending by banks

PHOTO: ©FRED PROUSER—REUTERS

Head of the new Bank of America, *Hugh L. McColl Jr. greets BankAmerica employees earlier this year. He has promised $180 billion for small-business lending over the next 10 years.*

has been rising in recent years and was up 25 percent in the year ending June 1997 over the same period the year before, according to the Small Business Administration.

"Small-business-friendly" banks—that is, banks that make loans of less than $250,000—are more profitable than banks that make few small-business loans, according to an SBA analysis.

Securing New Lenders

While mergers can be troubling and confusing, small-business owners who have come out ahead include John L. Courter, president of CourterCo, an Indianapolis-based wholesaler to the cabinet industry. He says his company, founded in 1983, has suffered through six bank mergers and acquisitions.

Dissatisfied with his last bank, Courter went shopping for a new one, spelling out to candidates what he was looking for: personalities that "meshed," a bank whose niche his company fit, an understanding of his business, local decision making, and an interest in his company's welfare.

Two years ago, Courter went with Fifth Third Bank of Central Indiana, a subsidiary of Cincinnati-based Fifth Third Bank Corp., which was formed in a merger of Fifth National Bank and Third National Bank.

"Fifth Third was really exactly what we were looking for," says Courter. He says he regards the bank as a partner. The account executive regularly makes business calls on Courter, but "not so frequent that it's bothersome." Bank decisions are made locally and quickly.

A few months ago, when Courter was considering purchasing another company, he took that firm's presentation to his bank, which did a complete analysis in two days. Fifth Third warned him that it did not think the acquisition was in his best interest.

"I just had to agree with the bank 100

The Outlook For Women And Minorities

How will the megamergers in the banking industry affect businesses owned by women and minorities?

If large banks coming into an area support women business owners and educate their employees on the fact that dealing with women business owners can be profitable for the banks, "it can be a very positive kind of a transition," says Diahann W. Lassus, president of the National Association of Women Business Owners, based in Silver Spring, Md.

But if the larger banks disrupt the local relationships that have been established, "women business owners really can lose out," she says. Lassus, president and co-owner of Lassus Wherley & Associates, a New Providence, N.J., financial-services firm, says she is seeing a little of both the positive and the negative.

She says some of the larger banks "want to deal with women-owned businesses." Wells Fargo Bank, which is merging with Norwest Corp., has set aside a $10 billion loan fund for women-owned companies, she notes. And NationsBank (now merged with BankAmerica under the name Bank of America) and First Union have actively pursued the market of women business owners, she adds.

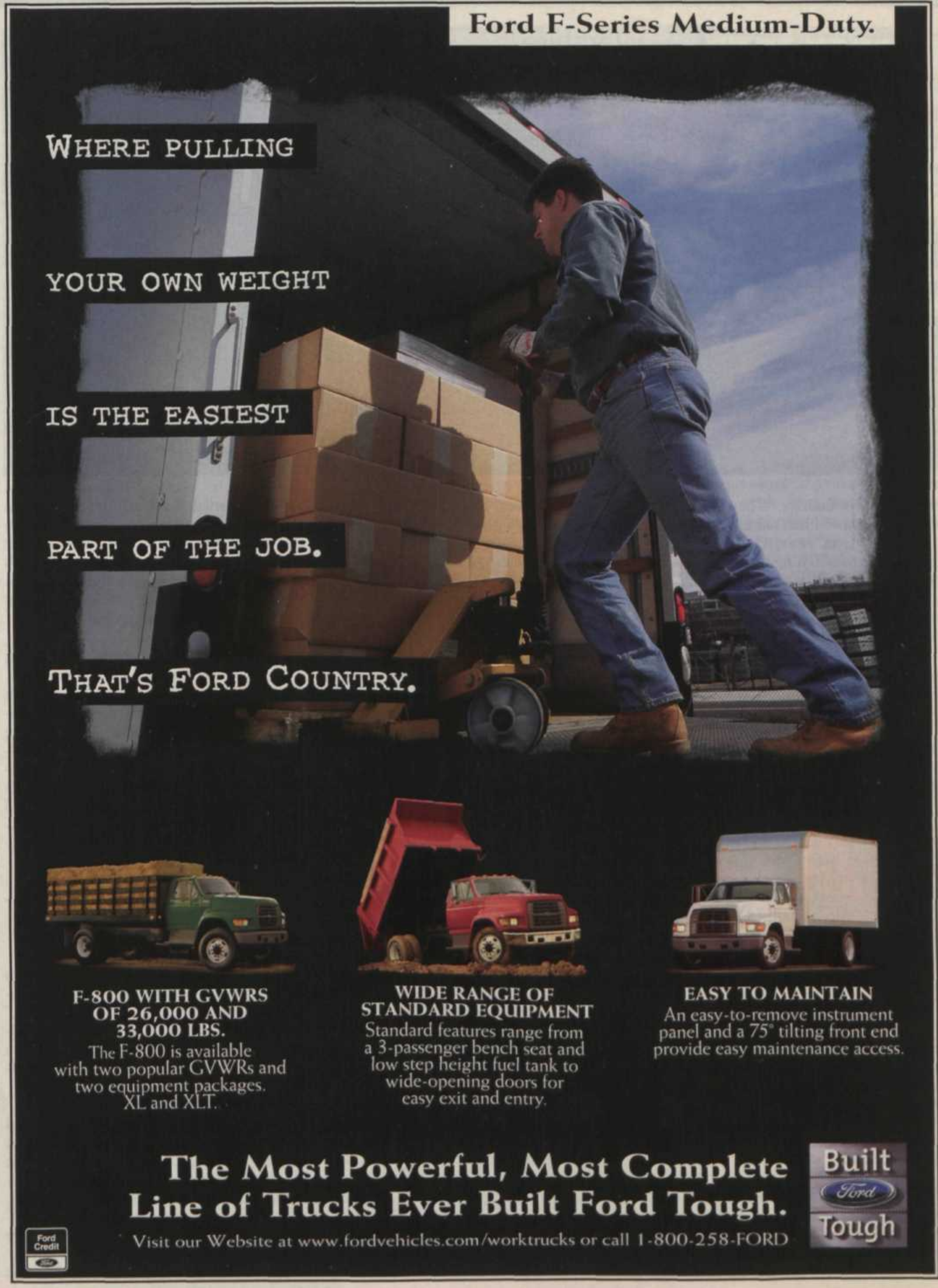
Wells Fargo recently announced a $1 billion loan commitment to African American business owners. But minority-owned businesses historically have had the most difficulty obtaining capital, according to Emma C. Chappell, who fears that these businesses will "have a more difficult time now." Chappell is founder and CEO of an African American-owned institution, United Bank of Philadelphia.

At a public meeting sponsored by the Federal Reserve Board last summer, Hugh L. McColl Jr., former NationsBank chief and now chairman and CEO of Bank of America, said that NationsBank had exceeded its goals over the past eight years in supporting minority-owned business by buying goods and services from them.

He also said that Bank of America aimed to have "one of the most diverse corporate boards" and "one of the most diverse work forces of any large corporation" in the country. Achievement of those goals could work in favor of minority-owned businesses.

At a similar Federal Reserve meeting regarding the pending merger of Banc One Corp. and First Chicago NBD Corp., Hedy Ratner, co-president of the Women's Business Development Center in Chicago, noted that both banks had provided loans and other support to her organization's clients.

But she also said that "the removal of lending decision-making from the first-line banker [in the borrowing firm's locale], which is the continuing trend in larger and merged banks, is detrimental to the growth of small businesses in the inner city."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F-800 WITH GVWRS OF 26,000 AND 33,000 LBS.
The F-800 is available with two popular GVWRs and two equipment packages. XL and XLT.
WIDE RANGE OF STANDARD EQUIPMENT
Standard features range from a 3-passenger bench seat and low step height fuel tank to wide-opening doors for easy exit and entry.
EASY TO MAINTAIN
An easy-to-remove instrument panel and a 75° tilting front end provide easy maintenance access.
The Most Powerful, Most Complete Line of Trucks Ever Built Ford Tough.
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PHOTO: ©SHAWN SPENCE

Indianapolis business owner *John L. Courter, center, is happy with his new bank and his bankers—Thomas C. Witt, left, vice president, and Michael J. Alley, president, of Fifth Third Bank of Central Indiana.*

percent," says Courter. "They brought up some things that I had not looked at."

(Earlier this year, CourterCo and Sawyer's Exterminating were named state honorees in the Blue Chip Enterprise Initiative, an awards program recognizing small businesses that have met significant challenges successfully. It is sponsored annually by Massachusetts Mutual Life Insurance Co., known as MassMutual—The Blue Chip Company; the U.S. Chamber of Commerce; and *Nation's Business*.)

Tactics For Coping

As Courter and others suggest, you don't have to feel powerless in this age of bank mergers and mega-mergers.

The bankers, business owners, and experts interviewed for this story offer these suggestions for initiating, protecting, and maintaining solid banking relationships:

Take stock. If your bank is about to be merged with another, says SCORE's Yancey, "it's a good time to review your banking relationship in general and make sure that the direction that your new organization is taking is consistent with what fits with your goals." If the fit is no longer there, you can make a change before you find yourself in a crisis situation with your bank.

Keep the basics in mind. Even if decision-making is no longer local, "the fundamentals that [bankers are] looking at and the issues that they're considering are the same issues," says Yancey. These include criteria such as cash flow, collateral, and the viability of your business.

If a local officer is serving as an intermediary between you and a remote decision-maker, make sure that the local person has all the information he or she needs or can get it from you quickly. "It's more important than ever that [the intermediary] has the ability to answer questions that might come up," Yancey says.

Be prepared. Remember that finding a new bank means a selling job on your part. When Courter went shopping for a bank in Savannah, Ga., where his company is opening a branch, he went with a three-ring binder for each of the three banks he visited. Each binder contained CourterCo's financial history, business plan, information on the kinds of loans the company wanted and the terms it was expecting, and a description of the relationship the company wanted with a bank.

Courter chose Savannah Bank. In two hours, he says, "we kind of had an agreement. By noon the next day, I had a commitment in writing."

Hold a big new bank to its promises. "Banks, being regulated institutions, are sensitive to public opinion," says author Chernow. "If the local business community begins to investigate and agitate, it can get a change in lending policy."

Talk to the right people. If you feel that your credit needs are not being met at a big bank, ask to speak to someone in the department that handles Community Reinvestment Act lending, says Chappell. That's the department responsible for seeing that the bank meets its community obligations.

Keep in mind, warns Chappell, that em-

Getting The Facts

Arming yourself with information is one of the best ways to prepare for the possibility that a megabank is coming to town—or that your longtime bank is being bought out.

The Federal Reserve Board's World Wide Web site, at *www.bog.frb.fed.us*, provides transcripts of public hearings on the mergers of Citicorp and Travelers Group, NationsBank Corp. and BankAmerica Corp., Banc One Corp. and First Chicago NBD Corp., and Wells Fargo & Co. and Norwest Corp. The transcripts offer a good overview of how such mergers might affect a community.

Information on community banks can be obtained from the Independent Bankers Association of America at One Thomas Circle, N.W., Suite 400, Washington, D.C. 20005; (1-800-422-8439). Or visit the association's Web site at *www.ibaa.org*.

To find a minority- or women-owned bank, contact the National Bankers Association at 1513 P Street, N.W., Washington, D.C. 20005; (202) 588-5432. Its Web site is at *www.nationalbankers.org*.

ployees at branch banks might not know that the bank has such a department. Keep pressing until you find someone who does know.

Raise the issues that are important to you. Courter says these are some of the questions he asks before signing on with a new bank: Where does decision-making take place? How many people will I have to deal with? How open is the bank to meeting with me and my advisers?

Before Courter went with Fifth Third, he even asked its president, Michael J. Alley, what his career goals were and how long he expected to be at the bank.

Get to know several people at your bank. These should include the loan officer and the person to whom the loan officer reports, advises Yancey. If you have a relationship with more than one person at the bank, chances will be better that if there's a change, someone you know will still be there.

PHOTO: ©SAL DIMARCO JR.—BLACK STAR

Opportunity knocks *for Emma C. Chappell, CEO of United Bank of Philadelphia, a community bank that she thinks may pick up customers dissatisfied with the giant banks.*

Take the initiative. Financial-services firm owner Lassus suggests that as soon as the dust settles on a takeover of your bank, you should make an appointment with the new loan officer or branch manager to introduce yourself and update the bank on your business.

Make sure you're not lost in the shuffle of the old bank's employees leaving and the new bank's people coming in. "You need to put a package together like you would do when you go to get a loan," says Lassus.

The general consensus is that dealing with banks, at least during this intense period of consolidation, is more difficult.

Establishing a relationship with a bank "does take more time and energy now," says Lassus. "But the bottom line is: If a credit line and having access to capital through the banks is important, then you have to focus the time and energy on developing that relationship."

For entrepreneurs who demonstrate the tenacity that made them successful in the first place, it's just one more challenge. NB

To order a reprint of this story, see Page 71.
For a fax copy, see Page 51.

Small Business Financial Adviser

The Stock Market Takes It On The Chin

By Randy Myers

Like a circus tiger turning on its trainer, a stock market that had seemed so tame for so long bared its fangs in the third quarter. In what might have been the prelude to the first bear market in eight years, the average domestic stock mutual fund fell 15.02 percent for the quarter, brought down by fears that tumbling economies in Asia and Russia would weaken others around the globe.

That loss more than erased all of the gains the average stock fund achieved in the first half of this year.

While some money managers are already scrounging through the rubble for bargains, the problems that triggered the market's decline—a near collapse of Russia's political and economic system, a severe recession in Japan, and imploding economies in many emerging markets—have yet to be resolved. That makes caution the watchword for prudent investors for at least the next quarter and perhaps for the next year.

"I think there's a high probability that the late August low [7,400 on the Dow Jones Industrial Average] will prove to be *the* low, but there will be a lot of chaos before we see any meaningful gains in the stock market," warns Don Hays, director of investment strategy for Wheat First Union, a brokerage firm based in Richmond, Va. "I don't expect a recession, but something that feels like it in much of the economy."

Hays notes that in September, for the first time in "quite a while," consumer confidence fell for a third consecutive month. Although confidence is still strong, Hays says his firm already expects the Christmas selling season to be weak.

Meanwhile, Wall Street analysts expect that profits for the nation's biggest companies probably fell, on a year-to-year basis, in the third quarter for the first time since 1991.

"We could continue to see declining profits on a year-to-year basis for the next three to four quarters," says Alan Levenson, chief economist for T. Rowe Price Associates, a Baltimore-based mutual-fund company. He says economic growth could come in at 2 percent to 2.5 percent for the third quarter, then will slow to below 2 percent for the fourth quarter and at least the first half of 1999.

Widespread Selling

Almost no segment of the stock market was immune to selling pressure in the latest quarter, but shares of small companies were clearly hurt the most as investors

Randy Myers, formerly a writer and editor for Dow Jones & Co., Inc., is a financial writer in Dover, Pa.

Performance By Mutual Fund Category

With Dividends Reinvested Through Sept. 30

Type Of Fund	3rd Quarter	One Year	Five Years*
General Stock Funds			
Capital-appreciation funds	-13.94%	-8.07%	11.84%
Growth funds	-13.44	-1.45	14.72
Midsize-company funds	-18.15	-11.95	10.86
Small-company funds	-21.52	-20.58	9.63
Micro-company funds	-20.82	-23.26	10.15
Growth and income funds	-12.47	-1.08	15.22
S&P 500 Index objective funds	-9.99	8.48	19.41
Equity income funds	-10.20	0.10	14.10
General Stock Funds Average	**-15.02**	**-6.36**	**13.65**
Sector Stock Funds			
Health/biotechnology funds	-7.77	-1.46	19.32
Natural-resources funds	-16.25	-33.48	4.15
Science and technology funds	-10.88	-6.97	18.51
Telecommunications funds	-15.34	3.65	13.20
Utility funds	-1.40	18.12	11.07
Financial-services funds	-19.24	-1.73	18.69
Real-estate funds	-12.36	-15.88	6.24
Specialty/miscellaneous funds	-12.07	-9.50	10.25
Sector Stock Funds Average	**-10.99**	**-5.16**	**12.61**
International Stock Funds			
Gold-oriented funds	4.30	-33.41	-7.84
Global funds	-14.65	-7.57	10.30
Global small-company funds	-20.63	-18.77	7.06
International funds	-16.16	-10.66	6.61
International small-company funds	-17.02	-8.05	5.17
European-region funds	-17.27	3.37	14.63
Pacific-region funds	-8.49	-40.29	-6.69
Japanese funds	-9.40	-23.34	-8.93
Pacific funds, excluding Japan	-6.57	-48.90	-10.56
China-region funds	-8.45	-52.52	-9.10
Emerging-markets funds	-23.57	-46.46	-8.03
Latin American funds	-29.38	-50.19	-5.07
Canadian funds	-23.74	-42.53	-3.80
International Stock Funds Average	**-15.81**	**-20.22**	**4.85**
All Stock Funds Average	**-14.82**	**-9.92**	**11.95**
Mixed Equity Funds			
Flexible portfolio funds	-7.85	2.20	11.79
Global flexible portfolio funds	-9.23	-3.96	8.42
Balanced funds	-6.42	3.26	11.66
Balanced target maturity funds	-2.84	2.66	7.04
Convertible-securities funds	-11.47	-7.24	8.90
Income funds	-4.53	2.89	10.60
Mixed Equity Funds Average	**-7.12**	**1.48**	**11.08**
Domestic Long-Term Fixed Income	1.36	7.19	6.21

SOURCE: LIPPER ANALYTICAL SERVICES INC.

*Average change for each of the five years

CHARTS: GEORGIA LEIGH McDONALD

sought safety in blue-chip issues.

The average small-cap fund tracked by Lipper Analytical Services, a research firm in Summit, N.J., lost 21.52 percent in the third quarter. By contrast, funds that mimic the Standard & Poor's 500 index of big-company stocks lost 9.99 percent. (All performance figures include capital gains and reinvestment of dividends.)

Financial-services stocks were hit hard as investors worried that banks and brokerage firms would be stung by their exposure to customers in emerging markets overseas.

By far the best-performing stock funds were those that invest in gold stocks. Lipper calculates that they earned 4.3 percent on average in the third quarter. Funds that invest in utility-company stocks were the next-best performers, falling 1.4 percent on average.

Those figures aren't surprising. Gold is a traditional safe haven in times of turmoil, and utility stocks usually hold up well when the stock market and economy tumble.

Why? First, most utilities still operate in a monopoly environment, meaning that their earnings aren't pressured by competition when the economy slows. Second, because they are usually big borrowers, their debt-servicing costs decline when interest rates fall, as usually happens when the economy slows. Finally, most utilities pay hefty dividends, which can help to offset any decline in the value of their shares.

Escaping To Bonds

Of course, for some investors, no stock is defensive enough, not even a utility stock. That explains why billions of dollars were funneled out of the stock market in the third quarter and redeployed in the bond market, particularly in U.S. Treasury bonds.

Treasuries are widely perceived to be the safest, most secure investment in the world, and they turned in big gains in the third quarter as investors engaged in a classic "flight to quality."

Their frantic buying pushed the yield on the Treasury's bellwether 30-year long bond to 4.9 percent by the end of the quarter, the lowest level for long-term rates since 1967. (Interest rates go down as bond prices go up, and vice versa.)

Mutual funds that invest in long-term Treasury bonds had a great third quarter as a result, gaining an average of 4.85 percent.

The average taxable domestic bond fund didn't fare as well, earning just 1.36 percent, largely because corporate bonds didn't keep pace with Treasuries. Investors were worried that a slowing economy could jeopardize the ability of corporate issuers to repay their debt. Funds that invest in long-term corporate bonds earned 2.78 percent in the third quarter on average, according to Lipper Analytical, while those that invest in high-yield or "junk" bonds lost 7.19 percent.

While the yields on 30-year Treasury bonds are at extraordinary lows, Wheat First Union's Hays says they could fall even further—closer to 4 percent—before this phase of the investment cycle runs its course. In part, that's because "real" interest rates—rates relative to inflation—are still higher than normal.

If rates do continue downward, Treasury bonds would be an attractive investment over the next 12 to 18 months. But Ian MacKinnon, managing director of the fixed-income group at Vanguard, the nation's second-biggest mutual-fund company, warns that continued downward pressure on rates is not a sure thing.

"The Treasury market is firm right now, but it is firm predominantly because of the fear factor," MacKinnon cautions. "If the coordinated efforts of the Federal Reserve Board and other developed countries, along with the International Monetary Fund and the World Bank, succeed in stabilizing the international economic situation, we could get an unwinding of those fears. If so, the appreciation in the Treasury bond could be reversed quite dramatically."

Heading into the fourth quarter, Vanguard's actively managed bond funds reflected neither a strongly bullish nor bearish stance on Treasury bonds.

Stock Performance In The Third Quarter

Industry Group	Change In Value July 1 To Sept. 30
Tobacco	12.3%
Utilities	5.4
Computer hardware	5.2
Internet	1.1
Drugs	-2.3
S&P Industrial Index	**-8.1**
Electronics	-8.3
Real estate	-8.4
Energy	-9.9
S&P 500 Index	**-10.3**
Nasdaq Index	**-10.6**
Telecommunications	-10.8
Computer software and services	-11.0
Metals and mining	-11.0
Dow Jones Industrial Average	**-12.4**
NYSE Index	**-12.8**
Media General Stock Index	**-13.6**
AMEX Index	**-13.9**
Wholesale	-14.1
Retail	-14.3
Consumer durables	-14.7
Media	-14.9
Aerospace/defense	-15.7
Conglomerates	-16.1
Materials and construction	-17.8
Automotive	-18.1
Insurance	-18.2
Health services	-20.0
Diversified services	-21.5
Chemicals	-21.8
Food and beverage	-21.9
Leisure	-22.1
Transportation	-23.0
Banking	-23.5
Consumer nondurables	-24.2
Specialty retail	-25.6
Financial services	-25.7
Manufacturing	-26.4

SOURCE: MEDIA GENERAL FINANCIAL SERVICES

Looking Ahead

For bond investors, MacKinnon suggests that the best values in the marketplace now can be found in corporate issues with medium-term maturities ranging from five to 15 years. "There is absolutely no reason to own Treasuries unless you think the sky is falling," he says. "You can earn close to 7 percent on investment-grade bonds in this sector of the market, versus 4.5 to 5 percent on Treasuries. And unless you believe the world is going to hell in a handcart, these corporate securities are going to be reasonably rock-solid in their credit quality and will pay off at maturity, too. They'll also benefit if we get a reversal of the flight to quality—so long as inflation doesn't crop up."

Municipal bonds are also attractive, MacKinnon says, especially for investors in high tax brackets. Virtually overlooked in the market's turmoil, high-grade 30-year municipal bonds (general-obligation and insured bonds) were yielding 5.2 percent at the end of the third quarter—more than Treasury bonds.

That's extraordinary when you consider that, because interest on municipal bonds is exempt from federal income taxes, they normally yield only about 85 percent of what comparable Treasuries yield.

For stock investors, Hays suggests that utility issues remain a good defensive choice. For investors willing to look outside the utility sector, he says, "you want to buy stocks that are very cheap [relative to their earnings] and whose revenue growth is going to continue to be OK."

Hays continues: "Eighteen to 24 months down the road, we're going to have a phenomenal market for stocks. But that depends on a lot of things coming together, including getting real [inflation-adjusted] interest rates lower." ■

INVESTING

Funds Of Funds: Simplifying 401(k) Investments

By Randy Myers

Want to make life easier for participants in your company's 401(k) plan? Add a fund of funds to their menu of investment choices. Better yet, add several.

Ordinary mutual funds—the most popular 401(k) investment options—typically invest in stocks and bonds. A fund of funds invests in other mutual funds. Also known as life-cycle funds and multifunds, funds of funds allow investors to build a broadly diversified portfolio by making a single investment choice rather than several.

"I define my job as being a surrogate for the investor," says Robert Markman, who presides over the Markman family of multifunds as president of Markman Capital Management in Minneapolis. "I do what you would do yourself if you had my time, resources, and experience."

Because no two investors have the same investment objectives, most funds of funds are designed to synchronize with an investor's age, investment horizon, or tolerance for risk (conservative, moderate, or aggressive). That makes them refreshingly easy to use for workers who don't have the time, inclination, or ability to mix and match from a potentially bewildering array of investment options in their 401(k) plans.

Many fund companies offer questionnaires that participants can use to help decide which fund of funds is best suited to their needs.

A Burden Removed

"In every company, you have a few astute individuals who manage their own money and understand stocks and bonds and asset allocation, but the vast majority don't do that and don't necessarily have the tools they need," says Roxanne Fleszar, president of Financial Resources Management Corp., a Peabody, Mass., investment advisory firm that is a consultant to qualified (tax-advantaged) retirement plans. "A lot of them are happy to have the investment burden taken off their shoulders [with a fund of funds]," she says.

Funds of funds are already gaining popularity. Greenwich Associates, a research and consulting firm in Greenwich, Conn., surveyed nearly 500 corporations about the investment options in their 401(k) and profit-sharing plans last year and found that 16 percent of respondents were offering life-cycle funds, up from 10 percent a year earlier.

IBM Corp. is a recent convert. IBM created four Life Strategy funds for its 401(k) plan in 1996. Each invests, in differing proportions, in other mutual funds offered through the plan.

The most conservative Life Strategy fund keeps 80 percent of its assets in bond funds, for example, and just 20 percent in stock funds. The most aggressive fund takes just the opposite approach: It has 20 percent of its assets in bond funds and 80 percent in stock funds. (Stock funds generally offer higher potential returns but greater short-term volatility than bond funds.)

Participants in the company's 401(k) plan are given guidelines for assessing their investment needs and their tolerance for risk, which helps steer them to the appropriate Life Strategy fund.

The asset-allocation mix in the IBM Life Strategy funds stays relatively constant. As investors' risk-reward tolerances change, they can switch money into a different fund.

That's the approach taken by most life-cycle funds that define themselves principally by the degree of risk they take on, including those offered by the Vanguard Group, the nation's second-largest fund company.

A View Toward Retirement

Fidelity Investments, the nation's largest fund company, takes a slightly different tack in matching investors with the right life-cycle fund in its stable. Each of its Freedom life-cycle funds is constructed to reflect the approximate year in which an investor will be retiring and the amount of risk appropriate for that investment time frame. (The longer until you retire, the more risk you can afford to take in hope of earning higher returns.)

Fidelity's Freedom 2000 fund, for example, is designed for investors retiring in the next several years. It allocates only about 41 percent of its assets to stock funds, 44 percent to bond funds,

and 15 percent to money-market funds. Fidelity's Freedom 2020 fund, by contrast, allocates about 80 percent of its assets to stock funds and 20 percent to bond funds; nothing is put into money-market funds.

Unlike the IBM and Vanguard funds, the asset-allocation mix in each of the Freedom funds changes over time; it becomes more conservative as the target retirement date gets closer. The idea is that investors never need to change funds, even as they approach retirement age and become less willing to take risks with their money.

Simplifying A Decision

For Jim Rich, the IBM senior investment adviser who oversees his company's $14 billion 401(k) plan, life-cycle funds meet the "kiss" ("keep it simple, stupid") test. They simplify the most critical decision every 401(k) investor must make, which is to determine what percentage of his or her retirement money should be allocated to each of the major classes of financial assets: stocks, bonds, and cash.

Academic studies confirm that more than 90 percent of an investment portfolio's performance is determined by this asset-allocation decision.

Most of the major fund companies offer a family of life-cycle funds. (IBM's funds are available only to participants in IBM's 401(k) plan.)

If you want to add life-cycle funds to your 401(k) investment menu, keep these elements in mind:

Costs And Performance. The big mutual-fund companies don't charge extra for their funds of funds because they invest solely within their own fund family. You pay only the fees on the underlying funds.

You can buy independent funds of funds that are able to invest in any mutual fund from any fund company.

While that can be a valuable freedom, the independent funds of funds don't earn money on the underlying funds in which they invest. As a consequence, they must levy their own charges, creating an extra layer of expenses for investors—typically about 1 percent of their portfolio per year.

That's an added hurdle to good performance, justifiable only if you believe that the independent fund of funds can generate better returns.

Benchmarks. When evaluating the performance of a fund of funds, be sure to use the appropriate benchmark.

Most funds of funds own a mix of stock and bond funds plus some money-market funds. If you compare them with the most popular mutual-fund benchmark, the Standard & Poor's 500-stock index, you'll never get a good handle on how well the fund is performing.

Insist that your plan provider supply participants with benchmarks that dovetail with your funds of funds.

Methodology. Some life-cycle funds invest in specific funds according to a fixed asset-allocation model—40 percent in stock fund A, 40 percent in bond fund B, and so on. Others, like Fidelity's, generally use the same funds but change the asset-allocation mix as a target date approaches. Still others, especially independent funds of funds, trade in and out of other individual funds opportunistically, the way a typical mutual fund trades in and out of stocks.

There's no right or wrong methodology, but understand what you're getting. Conservative investors might prefer funds with a more rigid asset-allocation discipline because it precludes attempts by the manager to "time the market"—a usually fruitless and expensive exercise.

"You want these funds to work for your employees and make them happy," concludes David Wray, president of the Profit-Sharing/401(k) Council of America in Chicago, an organization of plan sponsors and service providers. "As a plan sponsor and fiduciary, you have to make sure everything is as it's represented to be." ■

CREDIT

It Pays To Be Careful With Credit Cards

Small-business owners make up a major segment of the market for companies offering attractive credit-card terms. "Credit-card issuers are targeting these people because they know they have a voracious need for money—as start-ups and just to keep going," says Steve Rhode, president of Debt Counselors of America in Rockville, Md. As a result, he says, "all too many small businesses are becoming overwhelmed with debt related to easy lines of credit as well as card purchases."

He cites as an example the owner of a small service company in Dallas who piled up $75,000 in credit-card debts and has barely enough money to keep making the minimum payments each month.

"If you just make the minimum payment, it can take as much as 30 years to pay everything off," says Geri Detweiler, a credit-card consultant in Woodbridge, Va., and author of *Invest In Yourself* (Wiley, $22.95).

According to figures supplied by the Consumer Federation of America, by the end of the year banks will have mailed out 3.2 billion offers to prospective card customers—up from 3 billion last year and 2.4 billion in 1996. "This is the most aggressive credit marketing I've ever seen," says Debt Counselors' Rhode, adding that "there are lenders out there who will give you all kinds of quick credit."

A typical invitation letter says you have been pre-approved for so many thousands of dollars in new credit, and the introductory interest rate is 3 to 4 percent. "You get that rate for six months," says Detweiler, "then, bingo—it jumps to 15, 18, even 20 percent." The card issuers, she explains, are betting that once they sign you up, you'll stick with them no matter what rate you eventually pay.

While a barrage of credit-card offers can drive you deeper into debt, says Detweiler, it can also be used as a tool to reduce card balances systematically so you can get out of debt. It's called "card surfing," and it works along these lines:

You are invited to apply for a low-interest-rate card with an opportunity to transfer your balances from current high-interest cards. You complete the application and make the switch. You start paying down your new, consolidated balance, doubling the minimum you were paying on the old balances.

It's crucial that you take advantage of the lower interest rate to pay more each month to reduce your overall debt. When the low initial rate is about to increase, you can move to another low-rate card if one is offered to you. Or you might be able to negotiate a lower fixed rate before the low introductory rate is phased out.

Be sure to mail in your specified monthly payments with plenty of time to spare. If payments arrive just one day late, card issuers can increase the rate substantially—to as much as 21 percent in some instances—and may also charge a late-payment fee.

—Peter Weaver

The author is a business writer in Bethesda, Md.

MANAGING

Finding And Keeping Entry-Level Workers

Finding workers for low-rung jobs—and inducing such employees to stay and climb the company ladder—requires creativity.

By Thomas Love

Today's tight job market presents tough challenges to small-business owners who need employees at all levels of experience—including entry level. Employers who are successful at recruiting entry-level workers say the key is a willingness to go beyond tried-and-true methods such as advertising in newspapers and participating in job fairs.

Less-traditional techniques that have worked for employers include encouraging present employees to spread the word that the company is a good employer, tapping the reservoir of people getting off welfare, advertising on cable television, and capitalizing on community outreach.

"You have to use as creative a method as possible, stepping out of the box of your normal recruiting systems such as newspaper ads," says Dan Durenberger, division vice president for the Southern Mid-West Region of Buca Inc., a Minneapolis company that operates 16 Buca di Beppo restaurants in the Midwest, West, and Southwest.

Matt Donnelly, who runs an Andover, Mass., franchise of The Maids International, a residential-cleaning company, has had good luck hiring people off welfare. About half of the firm's 25 full-time cleaners are former welfare recipients, he says, and their turnover rate is no different from that of workers found through newspaper ads.

"We came across a number of [welfare-to-work] programs through the state unemployment office as well as some other, smaller programs that help people get on their feet and off welfare," Donnelly says. He keeps those organizations up-to-date on positions he has available, and he touts the advantages of working for his company—such as no weekend or night work.

Donnelly gives seminars at organizations that have programs for training welfare recipients for the work force. In those sessions, he explains what he expects as an employer. "I'm a real person from the real world who can tell them how we actually do things in real companies," he says.

Ways That Work

Durenberger of the Buca restaurant chain says his company finds and retains employees by becoming involved in each community it enters. "We go everywhere from nursing homes to local businesses. We sponsor Little League teams—and then attend the games," he says. "Our acceptance by the community has really helped recruitment."

Durenberger adds that because of the company's good work atmosphere, his employees, whom he calls "family members," have become his best recruiters. They "carry the word of Buca di Beppo to the streets when we need people," he says.

Neil Borkan, who operates the Iron Hills Resort in Iron River, in the Upper Peninsula of Michigan, as well as several fast-food franchises, says treating employees well is a major key to retaining them and recruiting others. "When we get them, we treat them well so they want to stay," he says. "We try to be fair to them and to be as flexible as we can. It's definitely much easier to keep the workers you have than to find new ones."

David Sanderson, who owns and operates 27 Precision Tune auto-care centers in North Carolina, is another employer who sees advantages in having happy workers. It is important to provide "a good, clean working environment" as well as good benefits, he says. "We provide free uniforms to all our employees. After 30 days we provide medical care, a retirement plan, and dental care. New hires get reviews after three and six months, and annually after that." This all makes it easier for him to fill openings, he adds.

PHOTO: ©RICHARD HOWARD

A draw for employees *at The Maids International residential-cleaning franchise in Andover, Mass., is that no night work is required, says franchisee Matt Donnelly. With him are employees Sonia Rivera, Nancy Tavarez, Mariana Miese, and Daysi Castillo.*

Josephine Coppersmith, who runs Duraclean of Long Island, a building-cleaning franchise in Yaphank, N.Y., advises making sure that help-wanted ads spell out all advantages the job offers. "If the job has flexible hours," she says, "I make sure I say so—whatever will bring people in."

Coppersmith has had good luck recruiting through ads on cable television, which she says is an economical way of reaching people. "I get lots of replies [from the ads], especially since they air three or four times a day. It's a good way of getting out there."

Entry-level workers are attracted to companies that they believe will give them a chance to advance as the firm grows, she adds. People can advance to a job in customer relations, a member of the safety team, a crew chief, or an inspector, she explains. "That's working for us because we are growing by leaps and bounds."

Setting Career Paths

Kevin Rosenberg, managing director of BridgeGate, LLC, a management search

firm in Irvine, Calif., agrees that companies must chart a career path for prospective employees at all levels, including entry level.

"You have to show them what the opportunities are in the long term," he says. "Prospective employees, especially at the entry level today, are looking for employers that will make investments in their future and take a vested interest in their long-term development.

"This is one of the single most influential tools that you can use to attract qualified candidates," he says, adding that it also is an excellent way to keep employees.

Kent Malinowski of Sandler Business Institute/Profit Builders Training Corp., a business advisory firm in West Palm Beach, Fla., suggests that companies write ads that, rather than describing a job opening, describe the type of person who would be successful and happy in the position. He says managers should look outside their industry for new employees.

Malinowski cites the example of a client who was looking for advertising salespeople for his radio station. He and the client decided that an important characteristic of good salespeople is their ability to separate what they do from their self-esteem so they don't take sales rejections personally. They settled on actors as a group of people who fit that description, and they posted an ad at a local acting school.

"It was amazing," says Malinowski. "The people who called said, 'You were describing me.' The client got some really great salespeople."

> **"Prospective employees, especially at the entry level today, are looking for employers that will make investments in their future and take a vested interest in their long-term development."**
>
> —Kevin Rosenberg, BridgeGate, LLC

Tapping Unusual Sources

There are many other means of attracting entry-level workers. An increasing number of firms are tapping retired people and other seniors for recruitment. They also may search for workers through advertisements on the Internet and by placing ads in out-of-town media in areas of high unemployment.

Some companies are working with prisons to hire people about to be released. And just as signing bonuses are offered to executives, entry-level workers sometimes are offered "retention bonuses" if they stay on the job for a certain period.

John Challenger, CEO of Chicago-based international outplacement firm Challenger, Gray & Christmas, says many companies are filling entry-level jobs by providing a wide range of "soft" benefits. They range from tuition reimbursement and technology training to permitting flexible hours so that employees can have time to take care of their children or be home for a plumber.

In addition, he says, "a lot of companies are offering things on-site to make it nicer to be there, like exercise facilities, pool tables, or pingpong."

Whatever works in attracting employees for entry-level jobs, Challenger says, a thread common to many inducements is that they are designed "to allow people to manage their lives." NB

SMALL BUSINESS TECHNOLOGY

Getting Control Of All The Paper

Document-management software and other tools can help small companies manage and use information effectively.

By Tim McCollum

Countless small businesses everywhere are drowning in information. By phone, mail, fax, and electronic mail, it washes over them every day—customer orders and invoices, financial and legal documents, personnel files, memos, and reports.

Finding a way to manage that information and put it to productive use when it's needed might make the difference between staying afloat and going under.

Information overload is a sinking feeling that Craig Miller, CEO of MM&A Group, remembers all too well. Six years ago, the fast-growing software consulting and personnel-placement firm in Atlanta was struggling to fill contract software-engineering positions for corporate clients and its own consulting projects.

Miller's problem wasn't a lack of qualified engineers. They were available, but his 35 employees at the time (he has 50 now) didn't know about the potential job candidates they had on file.

At the same time, communication between MM&A's recruiters and salespeople was rudimentary and inefficient. Because members of each group were frequently out of the office, they exchanged messages primarily through voice mail and paper notes. "We would find a good candidate for a position, and our recruiters would have to get up and walk over to tell a salesperson that we had someone," Miller says.

As a result, business was being lost because salespeople didn't know in time that engineers were available, and recruiters didn't find out that engineers were needed.

Miller set out to solve his company's problem by automating the flow of information in the office. His first step was to set up a system for sharing information across the firm's computer network, using Lotus Notes software from IBM. The software enables MM&A's employees to exchange messages via e-mail and online "discussions," lets them schedule meetings, and helps them manage consulting projects collectively.

To automate things further, MM&A implemented a database of clients and recruits, which employees can search quickly. Miller says the system allows people to concentrate less on internal processes and more on gaining and fulfilling contracts. "It's easier for us to keep track of people now," Miller says. "We're not trading voice mail. We're trading e-mail. We have records of whom employees are talking to and whom they are hiring."

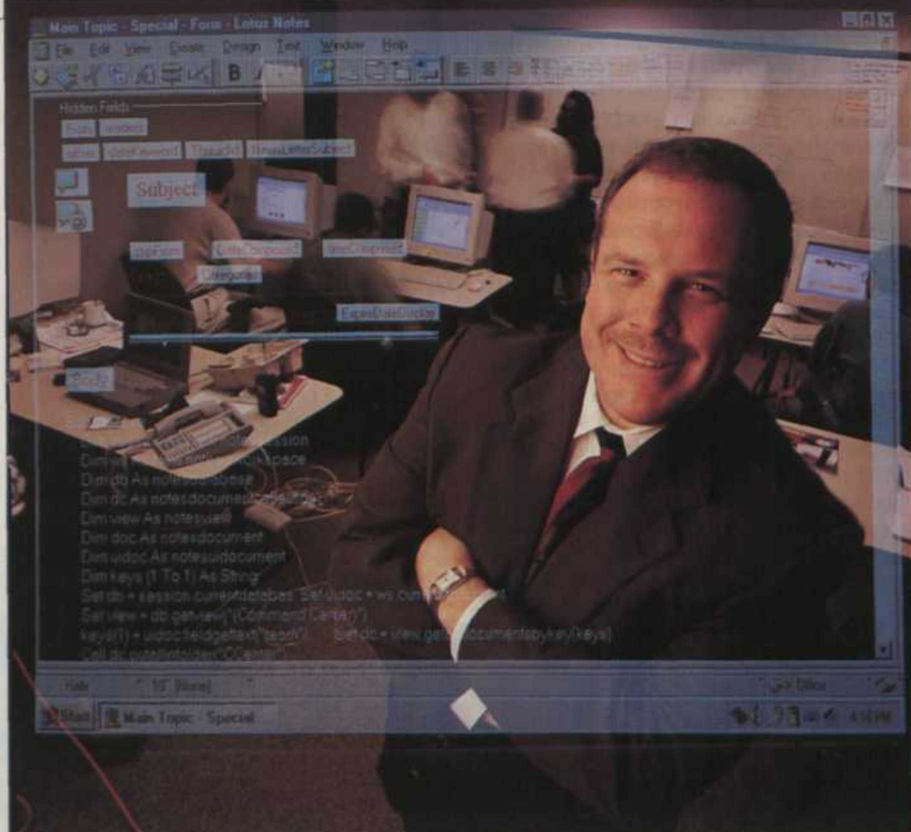

PHOTO: ©MARK ANDERSON

An easily searchable *database of contractors and clients enables employees at MM&A Group in Atlanta to concentrate less on internal processes and more on getting and fulfilling contracts, says CEO Craig Miller.*

Miller has discovered that information is valuable only if it can be accessed efficiently by those who need it. But often that's easier said than done.

Computers have increased the amount of information—data and paper—that companies have to handle. But despite the emergence of technologies such as e-mail, databases, and intranets, many small firms still have trouble disseminating data.

"When you just have a few people, it's not that hard to share information because people know what everyone is working on and can just ask about things," says Frank Pagel, senior systems analyst for World Wide Technology Inc., a St. Louis computer-integration and consulting firm.

"But when you grow to 10 or more people, you no longer have that ability," he adds. "What you need to do is start centralizing your information assets and making them available to everyone."

Tools For The Task

Getting control over that information and devising a way to share it is critical. Fortunately, small businesses can turn to document-management software and other tools that can help them get the job done, says Gerry Murray, director of knowledge technologies for International Data Corp. (IDC), a technology-research firm in Framingham, Mass.

Murray says document-management

software such as eRoom from Instinctive Technology Inc. in Cambridge, Mass., and InfoMagnet from CompassWare Development in New York City helps companies improve their methods of organizing and sharing information. "These technologies are ideal as an incremental investment on top of a plain old e-mail or intranet environment," he says.

Murray says document management must fit a company's line of business, its organizational culture, and the computer literacy of its employees.

A good place to begin is by looking at how work gets done in the office—how employees communicate with one another, for example, and what happens to information that arrives in the office from the outside. The answers go a long way toward revealing weaknesses in the way a firm manages information.

Such questions and answers led Craig Miller to create an information-management system for MM&A. The firm had solved similar problems for many of its clients, so Miller was familiar with how Lotus Notes could improve the flow of information.

With Notes as a foundation, Miller began to search for better ways to manage the unique information the firm had. Unlike companies that need to track products, parts, and supplies in stock, MM&A's "inventory" consists of software engineers.

To keep track of them, Miller chose to install specialized recruitment software called C-PAS from VCG Inc. in Norcross, Ga. C-PAS, which works in conjunction with Lotus Notes, enables MM&A to quickly match software engineers with contract positions or projects when they become available.

From Metal To Digital

At its best, document management can help smooth the operations of companies that had been paper-intensive. For example, installing a document-management system helped 1-900-Autofax of Buffalo, N.Y., put a stop to the paper chase.

The 10-person service bureau manages collection and customer-service functions for companies that sell and service commercial doors. The bulk of the firm's business involves processing invoices and work orders. The business grew steadily, but after nine years it was being buried by paper. Employees were searching constantly for documents in the company's overstuffed file cabinets.

That's when Kevin King, president of 1-900-Autofax, started looking for a better way. He wanted to be able to store in computers—rather than file cabinets—all documents received by the company. So he bought a scanner to transfer the documents' contents into a computer and purchased document-management software—The Paperless Office from CompuThink Inc. in Lombard, Ill.—to organize the information.

In less than a year, the system has helped the firm significantly, King says. Documents that arrive by mail or fax are scanned into a computer immediately. Using the software, employees assign documents to electronic file folders that are stored on 1-900-Autofax's computer network. Whenever employees need a document, they search for it using keywords, and it appears on their computer screens.

"It definitely saves a lot of man-hours for us, and it allows us to keep a better eye on the documents," King says. "Before, we'd have to go to the file room, pull out the document, make a copy of it, and go back and read it to the customer."

The system allows 1-800-Autofax to store more information for a longer period. King says the company's network has 2 gigabytes of storage capacity, which he estimates can store 40,000 documents.

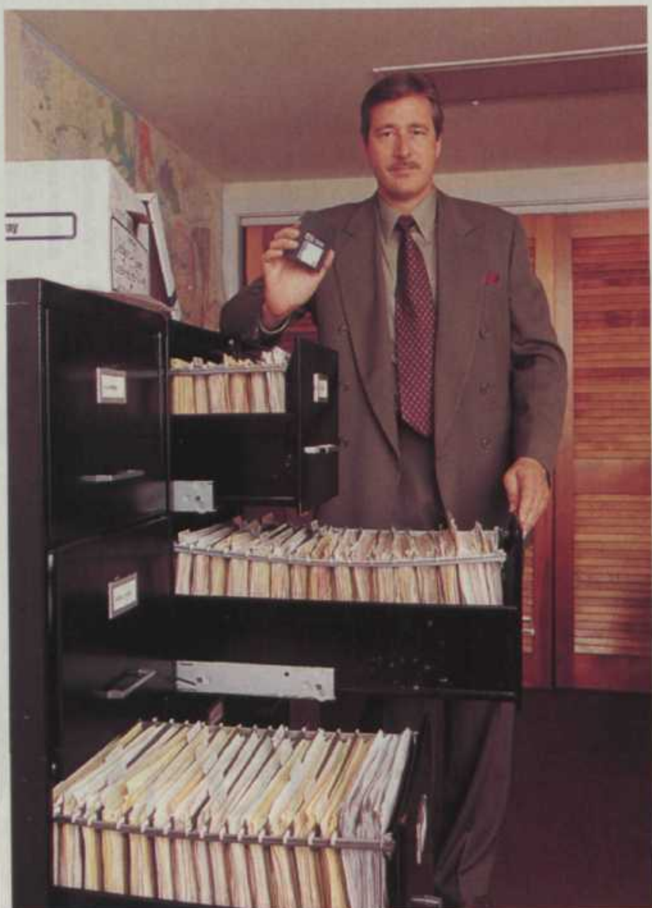

PHOTO: JOE TRAVER

With file-management software *installed at 1-900-Autofax, a customer-service firm in Buffalo, N.Y., one disc can hold thousands of documents, says Kevin King, president.*

Tailored Retrieval Systems

Low-cost computer storage and scanning technologies make it easy for small companies to convert paper documents into digital form, bringing firms closer to the ever-elusive goal of the paperless office. Yet electronic file cabinets can be even more frustrating than paper-filled ones if employees can't find the information.

"The old filing structure was very efficient for paper, but when [firms] try to mimic it electronically, they lose all the benefits of electronic storage," says Pagel of World Wide Technology. Instead, he says, such firms only increase their capacity for storage.

Pagel says each company must create its own system for searching for and accessing information. "If you have a plan for storing and accessing information, you can set up document management very quickly," he says.

Pagel says most small firms can set up a document-management system on their computer networks for about $35,000. With proper planning, the system can be installed in one to six months. "But most people don't have a plan," he says. "Small companies tend to run in circles in doing this."

Document management doesn't have to be a huge undertaking, says IDC's Murray. He says most companies can take an incremental approach and build their system to grow with the company and its changing needs.

"It's much easier for a company to do this at a smaller stage," Murray says. "Once you get bigger, it gets harder to convince people of the value of setting up an information-sharing environment."

Murray adds that it's important to involve employees in the planning of a document-management system because they are the ones who will be using it. With their input, document management can make the office run smoothly and efficiently, which makes everyone's job easier. NB


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Cutting The Costs Of Energy Use

A federal program gives small firms the technical know-how they need to make their facilities more energy-efficient.

By James Worsham

When Armando Petruccelli, general manager of his family's beauty-products firm, decided that he needed to cut costs and boost profits, one area he pored over was the company's energy expenses.

That meant taking a long, hard look at the lighting and heating systems in Petruccelli International's warehouse in Flushing, N.Y., next to busy LaGuardia Airport. There, the firm stores chairs and equipment as well as supplies of shampoos and brushes.

To reduce energy use, Petruccelli installed more-efficient lighting in the warehouse, in his offices, and in exit signs as well as outside the building. Then he replaced an oil-burning, forced-air heating system in his warehouse with gas-fired, infrared heaters that hang from the ceiling and spread heat much as radiators do in homes. The annual savings in energy bills came to $4,260, and the time it would take to recover the renovation costs through energy savings was estimated at 4.4 years.

"It's been a great thing," says Petruccelli. "We're hoping to do more."

The Petruccelli firm got some help in its renovations from a voluntary federal program called Energy Star Small Business, run by the U.S. Environmental Protection Agency. The program aids small companies that need technical help to make their facilities more energy-efficient.

The program was begun in 1996 in response to congressional concern that the agency wasn't doing enough for small businesses. One earlier program was designed to help large businesses as well as local and state governments, and another was directed at individual buildings.

Energy Star has about 525 participants, and the agency hopes to have 1,500 by year's end. The major focus is on reducing energy used in lighting and in heating and air-conditioning systems.

Jerry Lawson, the EPA's Energy Star program director, says that because about 23 million small businesses account for slightly more than half the nation's economic output, energy savings by these companies would have a significant impact. "If all American small businesses cut their energy costs by 30 percent," says Lawson, "more than $15 billion a year would go straight to their bottom line."

Improving The Light

The usual starting point for increasing energy efficiency and reducing costs is lighting—in public areas as well as in offices, warehouses, and even restrooms. "Lighting usually provides the quickest payback," says Lawson.

That's just what happened at Casual Creations Inc., a home-furnishings firm in Mary Esther, Fla., on the Gulf Coast near Pensacola.

The lights at Casual Creations weren't showing off the merchandise very well, says Fred Cochran, the firm's president. Furniture looked plain and drab and was not catching the attention of the customers, he says, and even the lighting in the office spaces left a lot to be desired.

So Cochran installed lighting that not only is more energy-efficient but also shows the furnishings in truer, brighter colors, he says. In addition, motion sensors installed in the restrooms turn on the lights only when someone enters.

Cochran says he thinks new lighting in the office area has helped boost sales.

PHOTO: ELISA QUINONES—BLACK STAR

To trim energy expenses *at Petruccelli International's warehouse in Flushing, N.Y., Armando Petruccelli, general manager of the beauty-supplies firm, improved lighting efficiency and installed gas-fired, infrared heaters that are suspended from the ceiling.*

A $6,500 investment reduced energy bills by $5,000 the first year, Cochran says, with the total payback time estimated at 1.4 years.

"Early into the process, we're very pleased," he says. "There's been significant savings from the get-go."

Lighting was also a problem for Larry Stanley, president and CEO of Empire Bolt & Screw, a parts-distribution company in Spokane, Wash.

Stanley had already begun efforts to

solve it when he heard about the Energy Star program. Participation entitles the business to a copy of a guidebook, *Putting Energy Into Profits*, so Stanley compared his plans with the program's recommendations.

"It gave me the opportunity to go through the guide and do the double-check to see if there was something that I missed," he says.

He hadn't missed much. He decided to replace 8-foot fluorescent lights with 4-foot lights because they last longer, cost less to burn, and yet produce more light. Illumination is crucial in his warehouse, where employees have to deal with many small hardware items, such as screws and bolts, and with small labels.

The payback time is an estimated 4.6 years.

For many companies, lighting is a good place to start, says Lawson, not only because it's the easiest and least costly fix but also because the savings achieved often can be used as a down payment on renovation or replacement of heating and air-conditioning systems. "You can leverage your lighting savings into the next investment," he says.

However, improving the energy efficiency of heating and air-conditioning systems can be more complicated. Although lighting can be improved just about any time, heating and cooling systems are usually not changed until it becomes time to make major renovations or replace the systems, Lawson explains.

Because his warehouse needed both lighting and heating changes, Petruccelli decided on a major renovation. In addition to the lighting, he opted for radiant-heat infrared heaters. He got help for the project from George Kritzler, a certified energy manager and principal in Imagineers Unlimited, an energy consultancy in Hillsdale, N.J.

The system's high-temperature ceramic burners heat Petruccelli's warehouse "the same way as the sun heats the earth," says Kritzler.

PHOTO: ©SCOTT FISHER

To show the true colors *of the home furnishings displayed at Casual Creations in Mary Esther, Fla., Fred Cochran, president, installed energy-efficient lighting.*

Examples Abound

Energy-use reductions achieved by other small firms through the Energy Star program suggest ways that companies everywhere can trim their energy costs.

For example, the owner of seven Subway sandwich-store franchises in Oklahoma cut his energy costs by 40 percent by installing more-energy-efficient lighting, heating and air conditioning, ceiling fans, and ice makers in his stores.

The investment in equipment was recovered through energy-cost savings in just three years.

A country inn in Massachusetts made the lighting in its guest rooms more energy-efficient and installed meters to monitor electricity use of lights and appliances. A rebate for some of the costs from the local utility helped to cut the payback time to only a month.

The owners of an antiques center in New York state persuaded their landlord to put on a new roof, and they paid for insulation, which has reduced their annual gas bill by $400.

The cost of the insulation will be recovered, they estimate, in less than three years.

The program's goals are broader than just boosting the bottom line for small businesses. It aims to reduce not only energy use but also energy-plant emissions, which subside as electricity demand decreases.

Empire Bolt's Stanley, a self-described conservationist, says, "Anyone with an interest or a concern in the environment should have an interest in this."

A firm that joins the Energy Star Small Business program receives the free guide, technical information, and help with finding financing for energy upgrades.

In return, EPA program officials request that the firm share its experiences with the agency so they can be passed along to potential participants, Lawson says.

To find out about joining, call the toll-free hot line at 1-888-STAR-YES (1-888-782-7937) or visit the program's World Wide Web site at *www.epa.gov/smallbiz*. NB

Energy Savers

The U.S. Environmental Protection Agency's Energy Star Small Business program recommends a five-stage, "stair-step" approach to cutting energy use:

1. Lighting: Upgrade with more-energy-efficient, longer-lasting, and less-expensive lights and lighting hardware.

2. Tuneup: Give your building a general energy "tuneup." Look for things such as leaky duct work and improperly functioning machinery.

3. Load Reduction: Install motion sensors for lights in less-frequented areas such as restrooms. Seal cracks to prevent the loss of heated or cooled air. When adding equipment, look for an Energy Star seal, which means that the product is certified as energy-efficient.

4. Heating/Cooling Distribution: Make sure that your fans, pumps, and duct work are functioning properly. Check air vents to make sure they haven't been closed inadvertently, as can happen, for example, when a vacuum cleaner passes over them.

5. Heating/Cooling Plant: After going through the first four steps, you might have reduced your overall heating and cooling needs. Look for smaller and more-energy-efficient units.

Small Business Technology

Many gadgets for the office, road, and home are designed to make people's lives more convenient and productive.

By Tim McCollum and Albert G. Holzinger

In Electronic Devices, The Future Is Now

If you're like most small-business people, you depend on low-tech and high-tech electronic devices to get you through the day. Perhaps a clock radio wakes you, a microwave oven and a coffee maker help you prepare breakfast, a personal computer helps you conduct business, a cellular phone keeps you in touch with people, and a television helps you wind down at night.

Electronic devices of the 21st century are expected to make people's working and personal lives even more convenient and productive. A number of these gadgets and gizmos debuted this year. They include devices for the office, road, and home. Following are brief descriptions of some of these products.

On The Road

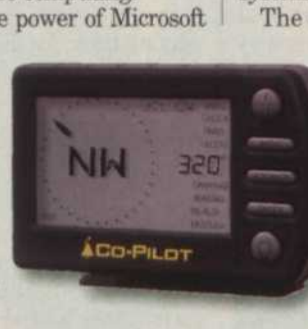
AccessLink Pager (SkyTel Corp., 1-800-395-5304, *www.skytel.com*). SkyTel's AccessLink is a small device that allows users to send as well as receive pages. The AccessLink also enables users to display on its four-line screen incoming text messages and news feeds from Dow Jones & Co., Inc.

Unlike most two-way pagers, the AccessLink doesn't have a keyboard for composing outgoing messages. Instead, users manipulate the pager's arrow keys to select from a dozen preprogrammed responses or create their own. Retail price: $322.

AutoPC (Clarion Corp. of America, 1-800-462-5274, *www.autopc.com*). It's smarter than a car stereo—and it plays music better than a PC. Clarion's AutoPC is a miniature multimedia computer designed for installation in the dashboard of a car or truck to provide passengers with stereo sound, navigation, wireless communication, and hands-free computing.

Clarion AutoPC

The AutoPC taps the power of Microsoft Corp.'s Windows CE operating system—designed principally for hand-held computers—to control its functions and keep track of each driver's contact and address information. Drivers operate AutoPC using voice commands or by hand.



Precision Navigation Co-Pilot

The AutoPC's navigation system provides turn-by-turn instructions to any U.S. destination on its small liquid-crystal display. Drivers can make cellular calls via AutoPC using voice commands or by recalling a contact from the address book.

The AutoPC also offers a full range of stereo features, including an AM/FM radio, a CD/CD-ROM player, a tuner with 20 station presets, and a 10-band equalizer. Retail price: $1,299.

CapShare 910 (Hewlett-Packard Co., 877-473-6772, *www.capshare.hp.com*). The recently announced CapShare 910 is the first in a series of devices billed by Hewlett-Packard as "information appliances" that work independently of a PC.

The palm-size, 12.5-ounce CapShare enables on-the-go users to scan with great fidelity and retain in memory up to 50 printed or handwritten documents as large as legal-size sheets of paper.

Back in the office, scanned faxes, memos, newspaper and magazine articles, business cards, receipts, and other documents can be transmitted via an infrared link or a cable from the CapShare to a desktop, laptop, or hand-held computer or to a printer.

Available in December, the CapShare 910 will sell for $699.

Co-Pilot (Precision Navigation Inc., 1-888-422-6672, *www.precisionnav.com*). Drivers don't have to get lost anymore: The Co-Pilot electronic compass and navigation system can help them find their way.

The Co-Pilot is mounted on the dashboard or windshield of a car, truck, boat, or recreational vehicle. Drivers can follow the maps or written directions that appear on the Co-Pilot's backlit liquid-crystal display to their destinations.

To further ensure that drivers will get where they're going, the Co-Pilot contains a sensor that detects and compensates for outside magnetic interference, which can cause inaccurate readings.

Retail price: $99.95.

REX PRO Organizer (Franklin Electronic Publishers, 1-888-739-6400, *www.franklin.com/rex*). There's a strong tendency among hardware and software vendors alike to clutter second-generation products with cumbersome features in a misguided effort to entice customers into "upgrading." Franklin avoided this trap

Franklin REX PRO Organizer

when designing the REX PRO information manager.

This easy-to-use successor to Franklin's popular REX PC Companion maintains its small size—about the size and thickness of three stacked credit cards—and its light weight of 1.4 ounces, but it gains memory and now can maintain 6,000 records.

While the original REX could be used only to view appointments, contact information, to-do items, and brief memos downloaded from computers, the upgraded device can be used to edit the downloaded information and make new entries directly on the REX.

Thanks to the TrueSync Plus software included with the REX PRO, the device can directly synchronize its contents with desktop or notebook PCs running most popular information-management programs. Retail price: $229.95.

Seiko MessageWatch (Seiko Communications of America, 1-800-724-3585, *www.messagewatch.com*). Seiko's MessageWatch—maybe the next best thing to Dick Tracy's fabled two-way wristwatch communicator—combines the features of a conventional digital watch and a pager.

The MessageWatch, which can store up to eight pages or messages of up to 16 characters each, receives information over FM radio frequencies. In addition to messages, MessageWatch wearers can receive news, sports, and weather information from providers such as the Nasdaq Stock Market and local weather bureaus.

Moreover, the watch resets itself automatically by tuning in to local-time broadcasts, so it's always accurate. It even adjusts the hour when a person enters a different time zone. The MessageWatch retails for $189.95; service fees start at $8.95 a month.

At The Office

Clik! Drive (Iomega Corp., 1-800-697-8833, *www.iomega.com*). These days, many people generate data on a variety of portable digital devices, including cameras, hand-held computers, and wireless phones. Iomega's portable Clik! drive enables people to record that data on pocket-size disks and transfer it to their PCs. Clik! disks are tiny—they weigh only 2 ounces—but they can accommodate a hefty 40 megabytes of data.

The Clik! drive is about the size of a standard cellular phone and comes in two models: one for mobile computers, the other for digital cameras.

The mobile-computer model uses a cable and a PC card to download information from notebook and hand-held computing devices. With the digital-camera model, users remove their camera's flash-memory card and insert it into the Clik! drive's flash-card reader.

Both models can transfer information to a PC via a docking device or a cable connected to the computer's printer port. Retail price: $200 for the drive; $9.99 each for disks.

CyberTranscriber (Speech Machines Inc., 650-568-1500, *www.cybertranscriber.com*; Voice It Worldwide Inc., 1-800-478-6423, *www.voiceit.com*). CyberTranscriber is an Internet-based service that allows users to dictate over the phone, into a PC using a microphone, or into a hand-held Voice It Digital Recorder. The voice recordings are transmitted in turn to the CyberTranscriber service center, which translates them into text documents and returns them to users via electronic mail.

The CyberTranscriber software installed on users' PCs enables them to review returned documents by playing back the dictation while the cursor follows along in Microsoft Word.

The CyberTranscriber software and service is available from Speech Machines for a $29.95 registration fee and a service fee of $9.95 a month. The fee entitles the user to four pages of transcriptions. Extra pages cost $3.50 each. Prices for the Voice It recorder start at $249.99.


Panasonic DVD-L10 Palm Theater

At Home

CDR880 Compact Disc Recorder (Philips Consumer Electronics Co., 1-800-531-0039, *www.philips.com*). Music enthusiasts can produce their own compact discs with the Philips CDR880 CD Recorder. This device records CDs, cassettes, and LPs onto blank CD-Recordable (CD-R) discs, which can be written to only once. Alternatively, recordings can be made on CD-Rewriteable (CD-RW) discs, which can be written to over and over.


Philips CDR880 Compact Disc Recorder

Like a conventional music CD player, the CD Recorder plugs into analog stereo equipment using a standard audio cable and can be operated by remote control. Moreover, it can be connected to professional music-production equipment, synthesizers, and other digital devices using coaxial or optical cable. Retail price: $649.

DVD-L10 Palm Theater (Panasonic Consumer Electronics Co., 1-800-211-7262, *www.panasonic.com*). Digital versatile disk (DVD) drives—which can play audio CDs, CD-ROMs, and a new type of CD that can accommodate 17 gigabytes of data—are quickly becoming standard in PCs.

They also are making inroads as a consumer entertainment device for watching movies and listening to music. Now, users can carry DVD capabilities with them, thanks to Panasonic's portable Palm Theater. This DVD player, with a 5.8-inch liquid-crystal display, packs the same video and audio playback capabilities of full-size DVD players into a unit the size of a hand-held PC.

When users aren't on the road, they can plug the Palm Theater into their home entertainment center and play DVD disks on their television or stereo. Retail price: $699.95.

WebTV Plus Receiver and Network (WebTV Networks Inc., 1-800-469-3288, *webtv.com*). Microsoft believed enough in the future of Web television to purchase WebTV Networks earlier this year. Then, Microsoft partnered with hardware suppliers Philips Consumer Electronics Co., Samsung Electronics America, and Sony Electronics Inc. to bring out a WebTV service upgrade that enables viewers to surf the Web from their easy chair.

The new WebTV product consists of the WebTV Plus Network, which provides Internet access, and the WebTV Plus Receiver, which sits atop the subscriber's television. The receiver allows people to navigate the Web with a pointing device like a TV remote control, either on the full television screen or in a small on-screen window while a television program is on.

In addition to accessing standard Web content, WebTV gives viewers access to specialized services such as interactive television listings and personal news and weather reports. Viewers also can send and receive video and audio e-mail they record using a video camera or digital camera.

The WebTV Plus Receiver retails for $199; Web TV Network service costs $24.95 a month. NB

MANAGING

Querying Experts By Keystroke

Major consulting firms are targeting small companies with online programs that answer business questions at affordable fees.

By Steve Kaufman

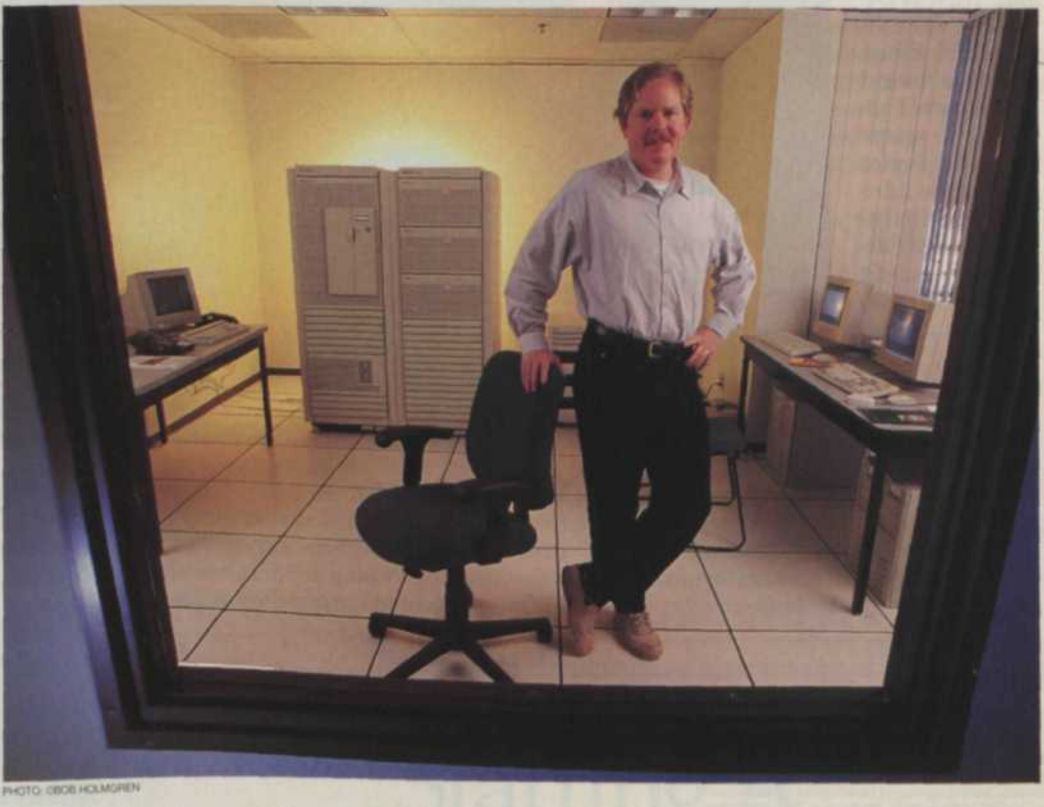


PHOTO: ©BOB HOLMGREN

Using Ernie, *an online consulting program from Ernst & Young, is "like having 50 consultants in my pocket," says Lyle DeWitt, controller of TriNet Employer Group in San Leandro, Calif.*

Lyle DeWitt used to spend up to five days a month tracking down answers to questions on administrative minutiae. The task was part of his job as controller of TriNet Employer Group, a San Leandro, Calif., professional employer organization that juggles employee administration details for 250 venture-capital-backed companies in California, Massachusetts, and North Carolina.

Sometimes DeWitt couldn't figure out the answers himself. He had to shell out money for an expert, such as the time he paid $2,250 for an immigration attorney to determine whether a foreign postdoctoral candidate conducting research for one of DeWitt's clients was exempt from Social Security taxes. (The answer, it turned out, was yes.)

"Little things like that used to drive me crazy," DeWitt says. "You have to find out the answer fast. And you have to get it right or face substantial financial penalties."

Today, DeWitt's life is easier because he's a subscriber to an Ernst & Young online consulting program called Ernie. For $3,500 a year, he can type questions into his computer and get a response on each one from an Ernst & Young expert within 48 hours.

That means less tedious work, fewer headaches, and no worries about costly mistakes. "Ernie is kind of like having 50 consultants in my pocket—and for a phenomenally inexpensive rate," DeWitt says.

Welcome to the fledgling world of online consulting, an outgrowth of the Internet and a trend with the potential to revolutionize the tony Brooks Brothers milieu of high-stakes consulting.

Ernst & Young, with Ernie, and Arthur Andersen, with its recently introduced KnowledgeSpace program, are pioneering online consulting in a bid to attract small companies into their fold—companies that generally can't afford such big-name firms' advice. It's a chance for these major accounting and consulting firms to get in on the ground floor with small clients who might become more lucrative accounts eventually.

Answers, Not Strategies

Online consulting often gives small firms their first crack at independent consultants, and it supplements mainstream consulting offered by large firms. Clients get solid answers to important questions at a relatively low cost, but they don't get major strategic advice about penetrating new markets or undercutting key competitors. That too might occur in time, however, as artificial intelligence and expert system software evolve to match the analytical capabilities of seasoned consultants.

Today, online consulting is mostly about getting advice from a live consultant, but the stage has been set for more computer-based offerings. Offline, Ernst & Young already sells proprietary software packages that in effect substitute for high-level, face-to-face consulting.

Ernst & Young's Software Selection Advisor, which costs $4,000, offers clients the methodology to implement companywide resource planning, accounting systems, manufacturing systems, and other key aspects of a business.

Another Ernst & Young program, the $3,000 Supply Chain Diagnostic Tool, mirrors the practices used by the firm's consultants to assess the efficiency of a company's supply-and-distribution chain, ranging from where it buys raw materials to how fast it ships finished goods.

"Until now, consulting has always been a people-intensive business," says Tom Hoglund, general manager of Arthur Andersen's KnowledgeSpace. The consultant "jumps in his car, drives to his client, spends two hours with him, and bills him for $500," Hoglund states. "It's one-on-one service delivery.

"Now we're seeing the start of one-to-many service delivery. The physical encounter becomes a virtual encounter as one consultant services a lot more clients via

the Internet and offers some of the same advice for much less money."

The advantages of online consulting seem compelling. TriNet's DeWitt, for example, uses the Ernie program to get fast, accurate answers to questions on topics such as the intricacies of 401(k) and so-called cafeteria benefit plans, health insurance, payroll taxes, and immigration issues.

"I know that I'll get the right answer back in two days and that I don't have to worry about where the data is and when I'll get it," DeWitt says. "That saves me a lot of stress in a business where everything seems to be due yesterday."

PHOTO: ©TODD BUCHANAN

Serving "a lot more clients *via the Internet" is one of the benefits of Chicago-based Arthur Andersen's KnowledgeSpace consulting program, says its general manager, Tom Hoglund.*

Sorting And Routing

Ernst & Young, which serves emerging growth companies extensively, started online consulting in May 1996. It has about 1,000 online clients, more than triple the number it had a year ago, says Brian Baum, director of online consulting services. Half of the clients have revenues under $20 million a year.

Questions put to Ernie are sorted according to subject by its "knowledge providers" and routed through Ernst & Young's intranet to the appropriate professional. The firm fields questions in seven categories, including general management, human resources, information technology, taxes, and corporate finance.

Ernst & Young offers two levels of service: For $18,000 a year, five employees can ask an unlimited number of questions; for $3,500, five can ask a total of 10 questions. Under each arrangement, the client receives unlimited access to a PAQ (Previously Asked Questions) database; to Trendwatch, a database providing an overview of topical trends in various emerging growth industries; and to Mediawatch, which provides articles from seven trade magazines.

Arthur Andersen's KnowledgeSpace program, introduced at the start of this year, typically costs $2,500 annually. It provides regularly updated data about key functional areas, such as corporate finance, and about specific industries, such as oil and gas exploration, telecommunications, and wholesale distribution. It also offers bulletin boards on numerous topics and a "global best practices" database, including diagnostic tools that allow companies to improve their performance by comparing themselves with others.

In addition, KnowledgeSpace professionals respond to specific queries via electronic mail for $100 an hour. They provide the client cost estimates for such e-mail responses if asked ahead of time.

Too Tidy For A Complex Age?

Not all consulting firms and independent market researchers are convinced that online consulting has a bright future, however. Companies, regardless of their size,

STATEMENT OF OWNERSHIP, MANAGEMENT, AND CIRCULATION

Publication Title: Nation's Business Publication No.: 492-850 Filing Date: September 22, 1998
Issue Frequency: Monthly Number Of Issues Published Annually: 12 Annual Subscription Price: $22.00
Complete Mailing Address of Known Office of Publication:
1615 H Street, N.W., Washington, D.C. 20062-2000.
Complete Mailing Address of Headquarters or General Business Office of Publisher:
1615 H Street, N.W., Washington, D.C. 20062-2000.
Names and Complete Mailing Addresses of Publisher, Editor, and Managing Editor:
Publisher: U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000.
Editor: Mary Y. McElveen, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000.
Deputy Editors: Albert G. Holzinger, Terence F. Shea, Roger Thompson; U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062-2000.
Owner: The owner is the Chamber of Commerce of the United States of America, said body being an incorporated organization under the laws of the District of Columbia, its activities governed by a board of directors. The officers are as follows:
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Publication Title: Nation's Business
Issue Date for Circulation Data: October 1998

	Average Number of Copies Each Issue During Preceding 12 Months	Actual Number of Copies of Single Issue Published Nearest to Filing Date
A. Total Number of Copies (Net Press Run)	887,174	885,803
B. Paid and/or Requested Circulation		
1. Sales through Dealers and Carriers, Street Vendors, and Counter Sales (Not Mailed)	1,665	1,488
2. Paid or Requested Mail Subscriptions (Includes Advertisers' Proof Copies and Exchange Copies)	859,678	859,787
C. Total Paid and/or Requested Circulation (Sum of 15B1 and 15B2)	861,343	861,275
D. Free Distribution by Mail (Samples, Complimentary, and Other Free)	5,138	4,777
E. Free Distribution Outside the Mail (Carriers or Other Means)	4,542	4,722
F. Total Free Distribution (Sum of 15D and 15E)	9,680	9,499
G. Total Distribution (Sum of 15C and 15F)	871,023	870,774
H. Copies Not Distributed		
1. Office Use, Leftovers, Spoiled	5,298	5,327
2. Returns from News Agents	10,853	9,702
I. Total (Sum of 15G, 15H1, and 15H2)	887,174	885,803
Percent Paid and/or Requested Circulation (15C/15G x 100)	98.9%	98.9%

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want face-to-face consulting, skeptics say, and the world has become too complex to be analyzed through tidy little answers moving through cyberspace.

"If you're a CEO of a Silicon Valley start-up and can't afford face-to-face consulting on marketing or positioning strategy, you still won't go online for help," says Julie Meringer, an analyst in computing strategy at Forrester Research in Cambridge, Mass. "You simply won't feel comfortable."

Greg Seal, a managing director at Deloitte & Touche LLP, another major accounting firm, says the answers to most questions today are not black and white and hence not suitable for Internet transmission.

"The business world has become exceedingly complex," Seal says. "Now, most questions must be answered in shades of gray. The answers may start with 'yes' or 'no,' but then you have to outline scores of exceptions based on a company's individual circumstances."

Complex as the problems may be, some business people voice frustration with traditional consulting practices. TriNet's DeWitt, for example, says the principal consultant for his firm may be on the other side of the globe and unavailable when needed, and if the firm sends a backup consultant, "you have to re-educate him on your dime. If instead you go online with a consultant with a video interface, you can quickly resolve your problems wherever in the world he happens to be."

Todd Mennen, a consultant at Houston-based Coleman and Coleman and a former entrepreneur, says business executives sometimes complain that consulting places too much attention on analysis and reports and too little on implementing solutions.

"Say I'm an executive at a manufacturing firm and my employee turnover is going through the roof," Mennen explains. "Today, a traditional consultant will charge $100,000 to analyze the situation and deliver recommendations. But the company is still left to deal with the problem. What good is that?"

Evaluating The Results

Ernie clients seem to be largely a satisfied lot. Tom Kittell, a former public accountant and the controller at Koike Aronson Inc., an Arcade, N.Y., machine-tool manufacturer, says he avoided consultants until the advent of Ernie because they charge by the hour, not by goals achieved, and tend to cost more than expected.

Now he asks Ernie questions several times a month and receives valuable information, he says. For example, the online service has persuaded him to establish a foreign sales corporation to trim taxes on such sales, which will increase net profits about 5 percent. And it has shown him how to make better cost estimates on custom production orders.

> **"In effect, I have a consultant available 24 hours a day."**
>
> —Stephen Switaj, Three D Metals Inc.

Similarly, Stephen Switaj, chief financial officer of Three D Metals Inc., a Cleveland-based distributor of parts to metal stampers, has found Ernie to be useful in answering questions about human resources, finance, taxes, and construction of an 84,000-square-foot manufacturing plant financed with the help of municipal revenue bonds.

"In effect," he says, "I have a consultant available 24 hours a day."

Rick Chiricosta, chief financial officer of Cleveland-based Medical Life Insurance Co., used Ernie to determine whether he could cut expenses by no longer leasing the 12 cars for the firm's salespeople and instead giving employees a $500 monthly allowance for use of their own vehicles.

But he checked with Ernie and discovered that because of tax rules for auto-expense deductions, some of his employees would not come out even under the arrangement. Deeming that unfair, Chiricosta decided to continue to lease the fleet.

Chiricosta also has seen online consulting's potential as a competitive tool. He recently used Ernie to help land a $250,000-a-year group life-insurance contract with an Ohio city government. The program helped him uncover a weakness in the design of the city's previous group life plan.

Nobody knows how big online consulting will become, but Dataquest, a San Jose, Calif., market-research firm specializing in high technology, says it could reach $100 million annually in five years.

"This is exciting stuff," says Denny Wayson, director of Dataquest's consulting service. "People who have never met a consultant suddenly have access to his experience. There's no question that online consulting will grow significantly." NB

Steve Kaufman is a free-lance business writer in San Jose, Calif.

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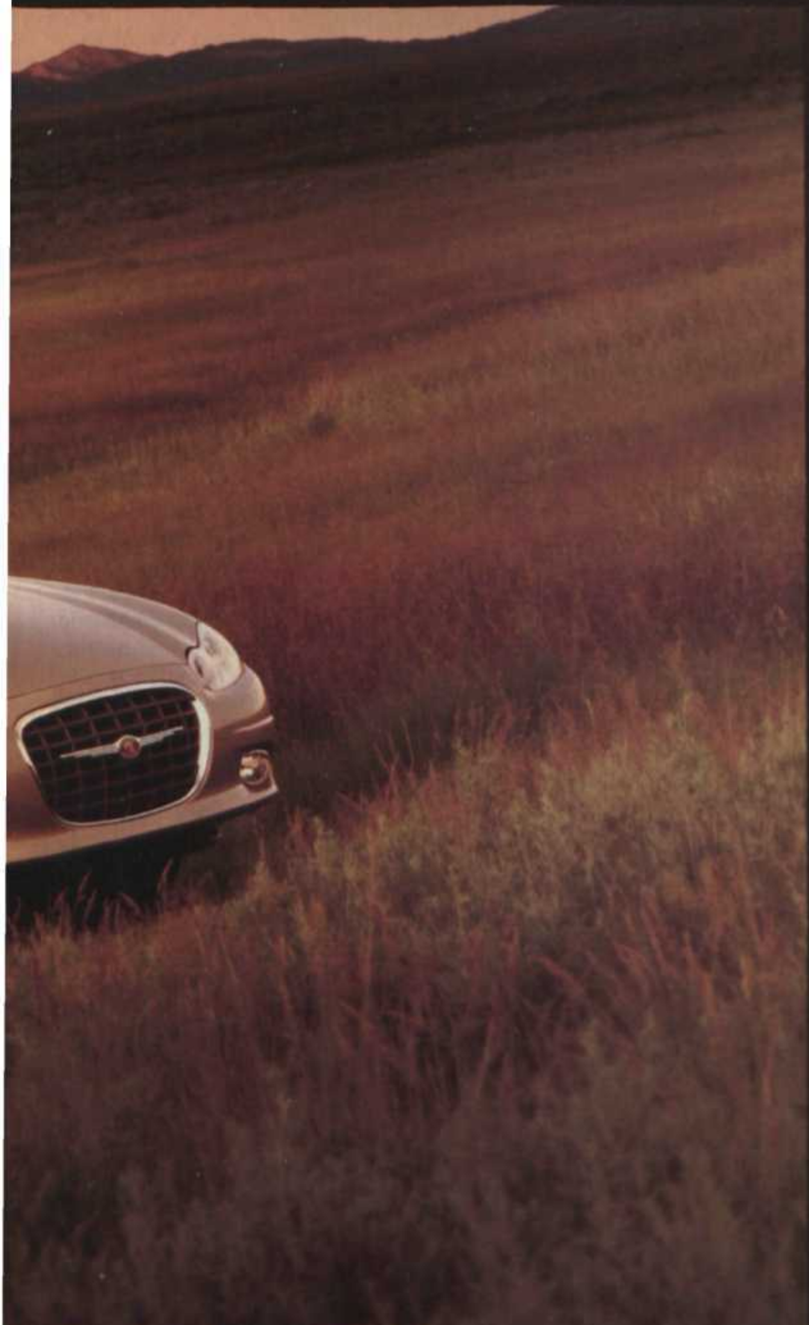

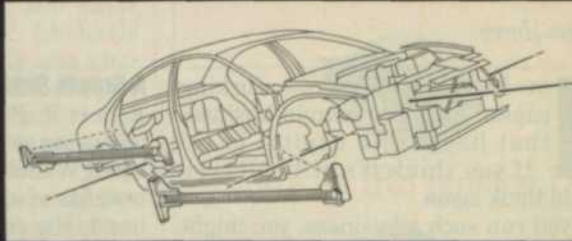

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FINANCE

Using Inventory For Collateral

Asset-based borrowing can be a powerful financing technique for speeding cash flow and helping your company grow.

By Juan Hovey

How hard is it to borrow working capital for a low-margin business that has a thin capital base? If you think it's difficult, you should think again.

If you run such a business, you might qualify for asset-based borrowing, a powerful financing technique that can speed cash flow and help your company grow. The technique works especially well for manufacturers, wholesalers, and distributors, but other businesses use it effectively as well.

What's more, banks and finance companies, flush with cash these days, are competing to sell such loans, making them a cheap source of working capital.

As the name implies, an asset-based loan is a revolving line of credit secured by assets such as receivables, inventory, or both.

In a very real sense, an asset-based loan cuts the time it takes to turn these valuables into cash—the key to profits in businesses operating on low margins, such as wholesaling and distributing.

With an asset-based loan, you:

- Borrow against receivables or inventory;
- Use the capital to buy more inventory; and
- Pay interest only on what you borrow while you're borrowing it.

If you default, the bank seizes the assets that secure your loan.

The bank cushions its risk by advancing only a percentage of the value of your assets—as a rule, 65 to 85 percent against receivables, up to 55 percent against inventory.

The catch? Paperwork. Asset-based borrowing can do good things for your business, but you have to plow through red tape to realize them. (See "Paperwork Aplenty," Page 43.)

This story is part of a continuing series on ways for small companies to locate the financing they need to run their businesses.

A Growth Strategy

Robert B. Bregman Jr., president and managing general partner of Los Angeles-based WESSCO International, knows the benefits of asset-based borrowing firsthand. His company supplies guest-room amenities to cruise ships and upscale hotels. It also sells plates, saucers, tableware, and other specialty items to airlines.

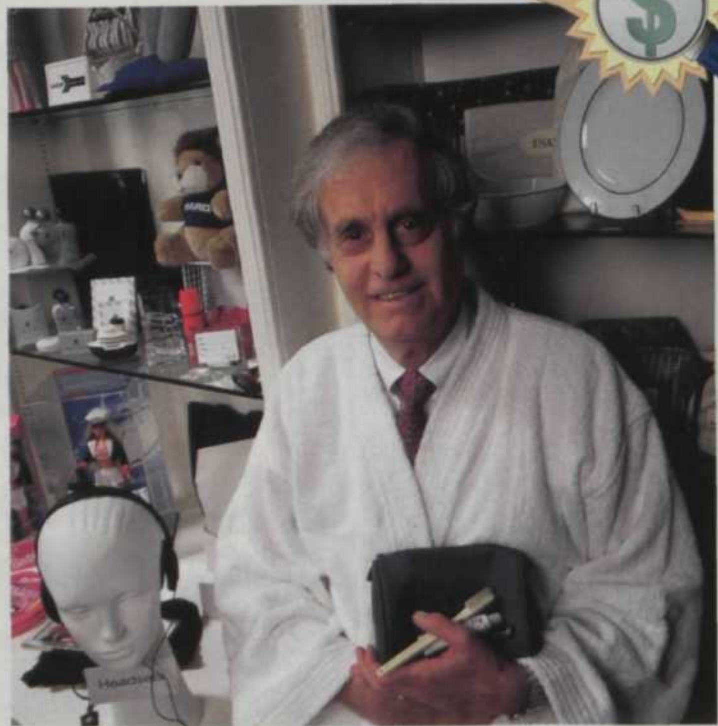


PHOTO: ©PATRICIA LANZA

Asset-based borrowing *has helped WESSCO International, a Los Angeles firm that supplies guest-room amenities for hotels and cruise ships, achieve 15 percent annual revenue growth, according to Robert B. Bregman Jr., president.*

In 1988, WESSCO's revenues stood at \$5.5 million. This year, Bregman expects to see \$20 million—a growth rate of 15 percent per year that Bregman attributes to asset-based borrowing.

WESSCO's airline clients include American, United, Delta, Alaska, America West, and Northwest. The company supplies the Ritz-Carlton, Intercontinental, and Four Seasons hotel chains and the Cunard, Carnival, Seabourn, and Norwegian cruise lines.

To get the best terms, Bregman pays his suppliers in Asia with letters of credit or via telex transfers. But he might wait four months or longer to receive payment from his customers in the United States.

To bridge the time gap, Bregman finances his receivables with an asset-based revolving line of credit from Comerica Bank of California, a unit of the major Detroit bank holding company.

Comerica, one of the most active asset-based lenders in the country, targets small and middle-market companies in Michigan, Ohio, Indiana, Florida, Colorado, Texas, and California. Banks across the country offer asset-based loans, as do commercial finance companies.

"I may get an order from American Airlines to supply porcelain for a year," Bregman says. The airlines usually want deliveries staggered over time so they can replace items as they break or wear out, he explains. He typically makes a first delivery 90 days after he has ordered the goods and the rest at 30-day intervals thereafter.

"You can see I won't invoice American Airlines for the first delivery until three months out, and I won't get paid for 30 days after that," he says. "For some of the order, I won't get paid for more than a year. But if I want the best terms from my suppliers, I have to pay them soon after they ship. My loan facility with Comerica bridges the time gap."

Strong Receivables

Put another way, asset-based borrowing allows WESSCO to cut the cost of goods from its suppliers and to speed turnover.

Bregman first learned about asset-based borrowing 10 years ago from a loan officer at another bank, and he quickly saw the

benefits of the idea.

"We were relatively small at the time, and it seemed like the answer to rapid growth," Bregman says. "Once we understood how it worked, we recognized that it would be good for us."

The key to his program is the strength of his receivables—all from big-name customers. Indeed, asset-based lenders don't worry as much about a company's net worth or even its financial history as they do about the strength of the asset against which they lend. With receivables, customers are key.

Frank Gaddy, a senior vice president at Comerica who oversees nationwide business credit operations out of corporate headquarters in Detroit, says, "There has to be some basic integrity to the balance sheet, but in asset-based lending, that means less than it does in traditional business lending."

> **"There has to be some basic integrity to the balance sheet, but in asset-based lending, that means less than it does in traditional business lending."**
>
> —Frank Gaddy, Senior Vice President, Comerica

Costs And Procedures

What does such a loan cost?

A creditworthy business can borrow against assets at the prime rate plus two percentage points, sometimes less, Gaddy says. Some lenders peg their rates to the London interbank rate known as LIBOR, which generally reflects the cost of U.S. Treasury bills plus 175 to 200 basis points. (A basis point is one one-hundredth of a percentage point.)

"We love to finance a company experiencing the cash-flow problems common to new businesses," Gaddy says. "These businesses need working capital to finance growth, and even if their balance sheets and profit-and-loss statements don't look so good, they have good prospects. Asset-based lending can really propel companies like these to big growth."

What it did for WESSCO was to generate a decade of growth at 15 percent annually—a growth rate many business owners would kill for.

"Asset-based financing makes life predictable," Bregman says. "We get the funds we need to make us grow, and this kind of borrowing makes our cash flow manageable." NB

Juan Hovey is a free-lance writer in Thousand Oaks, Calif.

Paperwork Aplenty

You need to push some paper to get an asset-based loan, according to Paul J. Wolf, a Los Angeles investment banker whose firm, Houlihan Lokey Howard & Zukin, puts together financing deals for small and middle-market businesses.

You push even more paper to maintain the loan, Wolf says.

For starters, you must show your banker:

- Three years of profit-and-loss statements as well as tax returns for your business.
- A current interim financial statement and such a statement from a year earlier.
- Aging reports on your accounts receivable—analyzing how much time has passed since invoicing customers without receiving payment—and on inventory for the current period and for the same period one year earlier, along with a list of your top customers.
- Your personal financial statements and tax returns for three years.
- Your sales projections for the coming year.

As a rule, you must submit updated financials and tax returns annually to maintain the loan, Wolf says.

In addition, you must report accounts payable and receivable on a monthly, sometimes weekly, basis along with a "borrowing base certificate" analyzing sales, collections, and net collateral.

"The paperwork seems onerous," Wolf adds, "but any business owner who studies statements regularly knows that their value far outweighs the trouble of putting them together."

In any case, most commercial business-accounting software packages compile the data automatically, and once you get your reporting system up and running, it's not hard to maintain it, according to Wolf.

MANAGING

Getting Answers On Hiring The Disabled

By John M. Williams

Although many employers would gladly hire people with disabilities, they often hesitate to do so because of questions about laws on hiring the disabled and about other issues. These questions and answers address some of employers' most frequently expressed concerns:

Q. Where can I find information on the Americans with Disabilities Act?

A. Employers can obtain copies of the ADA from the offices of their U.S. senators and representatives, at libraries and law offices, and at *www.eeoc.gov*, the World Wide Web site of the Equal Employment Opportunity Commission.

The EEOC site contains a wealth of ADA-related information. Employers can also call regional offices of the EEOC or write to EEOC, Office of Legal Counsel, ADA Services, 1801 L Street, N.W., Washington, D.C. 20005-1111. The toll-free phone number for the EEOC's headquarters is 1-800-669-4000.

The Web site of the President's Committee on Employment of People with Disabilities (PCEPD), at *www.pcepd.gov*, contains fact sheets on the ADA in the site's publications area.

Employers can also write to the U.S. Department of Justice, Office of ADA, P.O. Box 66378, Washington, D.C. 20035-9998. The phone number is (202) 514-0301, and the number for those using a Telecommunications Device for the Deaf (TDD) or a Teletypewriter (TTY) is (202) 514-0383.

Q. If I hire a disabled person or promote a disabled person, will my company's health-insurance costs rise?

A. Fear of rising health-insurance costs is often a major concern among employers thinking about hiring a disabled person, but often the concern is based on misinformation.

It's true that health-insurance rates may rise if a disabled person is hired, and such an increase is more likely in smaller companies than in larger ones. Some companies facing this possibility shop for a new health-insurance provider. If they find better rates, they might switch carriers or use the lower offer to negotiate better rates with their current provider.

Under the Americans with Disabilities Act, an employer may not refuse to hire an otherwise qualified individual with a disability (or a nondisabled person associated with a disabled person) on grounds that the company's health insurance would increase. Neither can an employer deny a person with a disability equal access to insurance or require such a person to meet terms and conditions of insurance different from those set for employees without disabilities.

Q. Does the ADA require me, as an employer, to provide health insurance to a disabled employee?

A. The ADA does not require employers to provide health insurance to disabled employees. But if the employer offers health insurance to other employees, the ADA requirements apply.

On June 8, 1993, the EEOC issued what it called "Interim Enforcement Guidance on the Applications of the ADA to Disability-Based Provisions of Employer-Provided Health Insurance." Four ADA requirements are listed in the health-insurance area:

1. Disability-based distinctions are permitted only if the employer-provided health-insurance plan is bona fide and if the distinctions are not used as a subterfuge to evade the act.

2. Decisions regarding employment of an individual may not be motivated by concerns about the impact of the individual's disability on the employer's health plan.

PHOTO ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

3. Employees with disabilities must be accorded equal access to whatever health insurance the employer provides to employees without disabilities.

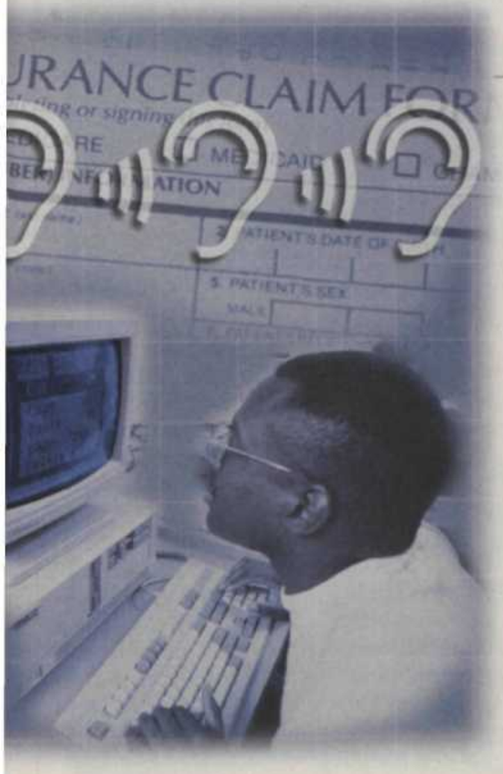
4. An employer cannot make an employment decision about any person based on concerns about health-plan costs because of the disability to someone with whom that person has a relationship.

For more information, contact the Disability and Business Technical Assistance Centers (DBTACS) at 1-800-949-4232 (Voice/TTY/TDD).

Employers may also call the EEOC at 1-800-669-4000. The TTY/TDD number is 1-800-669-6820, and the fax number is 513-489-8692.

The PCEPD is an excellent resource in this field. Its telephone number is 202-376-6200. The TTY/TDD number is 202-376-6205, and the fax number is 202-376-6219.

Where can an employer find people with disabilities who are qualified for work? Here are answers for this and other questions on the subject.



Q. What tax incentives are available for employers who hire disabled people?

A. There are three tax incentives to help employers either cover the cost of accommodations for employees with disabilities or make their places of business accessible for either disabled employees or disabled customers. They are:

■ Small Business Tax Credit (IRS Code Section 44, Disabled Access Credit).

Small businesses that had no more than $1 million in revenues during the previous year or that have 30 or fewer full-time employees are eligible. The credit is 50 percent of an expenditure, but only for the amount between $250 and $10,500. (There are other federal, state, and local laws that can be used for additional tax deductions.) The maximum annual benefit is $5,125 and is deducted from the total tax liability after taxes are calculated.

The credit is available every year and can be used for costs such as hiring sign-language interpreters for employees or customers who need them, hiring readers for employees or customers with visual problems, and purchasing adaptive equipment or modifying existing equipment. Other covered costs include the production of print materials in alternate formats (braille, audiotapes, large print) and the removal of barriers in buildings and vehicles.

■ Architectural/Transportation Tax Deduction (IRS Code Section 190, Barrier Removal).

Any business can take an annual deduction of up to $15,000 for removing physical, structural, and transportation barriers for disabled employees. Amounts above $15,000 annually can be depreciated.

Businesses can use a tax credit and a tax deduction together. For example, if a business spent $12,000 for access adaptations, it would qualify for a $5,125 tax credit and a $6,875 tax deduction.

■ Work Opportunity Tax Credit.

This tax credit, created by the Small Business Job Protection Act of 1996, is available to employers who hire people from targeted low-income groups, including vocational-rehabilitation referrals from the state's employment security agency office. An employer can take a tax credit of up to 40 percent of the first $6,000, or up to $2,400, in wages paid during the first 12 months to each new hire. The document necessary to file for this credit, IRS Form 8850, can be obtained from the state employment security agency.

For additional information on tax credits, contact the Office of Chief Counsel, Internal Revenue Service, 1111 Constitution Ave., N.W., Washington, D.C. 20224, or call 202-662-3110.

Q. Where can I find qualified disabled people to work?

A. You can find them working at colleges and universities in the disabled students' services programs, at job centers, through governors' offices for employment of people with disabilities, at educational institutions, and at other businesses.

Rehabilitation- and occupational-therapy offices can tell you where to find qualified disabled people. The Job Accommodation Network has a work-force recruitment program. JAN's number is 1-800-232-9675.

Employers can find information on disabled people to employ at the Office of Special Education Programs, 202-205-8112; the Association of Projects with Industry, 202-543-6353; the Association of Higher Education, 614-488-4972; the Rehabilitation Services Administration, 202-205-8719; the Department of Veterans Affairs, 1-800-827-1000; the Social Security Administration (Project Able), 757-441-3363; the State Governors' Committee on Employment of People with Disabilities (*www.pcepd.gov/state.htm*); Goodwill Industries International, 301-530-6500; and the Career and Employment Institute/National Center for Disability Services, 516-465-3737.

Q. Is there one disability that is the most difficult for employers and fellow employees to deal with as far as working with a disabled person?

A. Many employers say that mentally challenged individuals are the most difficult to work with in a business setting. Such individuals, they say, require that information be repeated for the same tasks.

This opinion is accurate in some situations but not all. And it does not mean that mentally challenged people lack the intellectual ability to work. Such individuals have proved to be excellent workers in a variety of businesses. They are working as cashiers, waiters and waitresses, telephone operators, data-entry personnel, and more.

McDonald's Corp., Home Depot, Inc., and Wal-Mart Stores, Inc., are successful employers of people who are mentally challenged.

The abilities of the person are what count. The greatest obstacle for a disabled person is the attitudes of the able-bodied population. When an employer looks at a disabled person, the employer should see the person first and remember that the disability is not the sum of the person's abilities.

Q. Do most disabled young adults have high-school diplomas or college degrees?

A. The U.S. Office of Special Education reports that only 56 percent of the nation's youths with disabilities graduate from high school. Each year, a high percentage of high-school students with disabilities drop out. Only half of the country's annual high-school graduating class of disabled students find jobs. Of those employed, only 50 percent are employed full time.

However, an increasing number of people with disabilities have not only a high-school education but also a college degree—in areas including business, education, communications, and computer sciences.

Q. Is there a disabled leader who can come to my business and talk to the company about the benefits of employing people with disabilities? Does he or she know about technology?

A. Yes. There are many organizations nationwide with qualified individuals who can address businesses on issues related to employing people with disabilities. Here are some of them:

■ The American Council for the Blind, 1155 15th St., N.W., Suite 720, Washington, D.C. 20005. The telephone number is 202-467-5081. The council has information on products that can help blind and visually impaired people.

■ The American Foundation for the Blind, 11 Penn Plaza, Suite 300, New York, N.Y. 10001. The telephone number is 212-502-7652. The foundation has information on products that can help blind and visually impaired people.

■ The American Occupational Therapy Association, P.O. Box 31220, Bethesda, Md. 20824-1220. The telephone number is 301-652-2682. The association has information on products that can help people with various disabilities.

■ The American Speech Hearing Language Association, 10801 Rockville Pike, Rockville, Md. 20852. The telephone number is 301-897-5700. The association has information on products that can help the deaf and people with speech or hearing impairments.

■ The Communication Aid Manufacturers Association, P.O. Box 1039, Evanston, Ill. 60204-1039. The telephone number is 1-800-441-2262. The association provides information and training on products that can help the speech-impaired.

There is an erroneous perception that people with disabilities cannot work or be productive. This is one of the main reasons why huge numbers of people with disabilities are unemployed. … [There is] a new breed of disabled workers. They are intelligent, technologically oriented, and driven to succeed.

■ Disabled Sports USA, 451 Hungerford Drive, Suite 100, Rockville, Md. 20850. The telephone number is 301-217-0960. The organization keeps a list of manufacturers of products for athletes who have lost limbs.

■ The Job Accommodation Network (JAN), 918 Chestnut Ridge, Suite 1, P.O. Box 6080, Morgantown, W.Va. 26506-6080. The telephone number is 1-800-626-7234. The network provides information on assistive-technology products and on the ADA.

■ Paralyzed Veterans of America, 801 18th St., N.W., Washington, D.C. 20006. The telephone number is 202-494-8200. The group has information on products for people who use wheelchairs and on other mobility products.

■ The President's Committee on Employment of People with Disabilities, 1331 F Street, N.W., Washington, D.C. 20004-1107. The telephone number is 202-376-6200. This organization has more than 50 regional technology centers. They house a wide range of products for people with disabilities and work with employers to show how those products can be used on the job. To find the technology center nearest you, contact the PCEPD.

■ The Rehabilitation Engineering Society of North America, 1700 North Moore St., Suite 1540, Arlington, Va. 22209. The telephone number is 703-524-6630. The organization has information on a variety of assistive-technology products used in the rehabilitation field.

■ Self Help for Hard of Hearing People, 7910 Woodmont Ave., Suite 1200, Bethesda, Md. 20814. The telephone number is 301-657-2248. The group has information on products for the deaf and the hearing-impaired.

■ Technical Communications, Inc., 19 Crescent Court, Sterling, Va. 20164. The telephone number is 703-406-7831. The electronic-mail address is *jmmaw@aol.com*. TCI is a publishing and consulting company that focuses on disability issues.

■ Telecommunications for the Deaf, Inc., 8719 Colesville Road, Suite 300, Silver Spring, Md. 20910. The telephone number is 301-889-3787. TDI is a nonprofit educational and advocacy organization that has information on products that can help the deaf and people with hearing impairments or limited mobility.

Q. Are disabled employees out sick more than nondisabled employees?

A. The Job Accommodation Network has statistics showing that disabled employees are out sick less and take less time off than able-bodied workers.

Q. Can a disabled person be a manager?

A. Yes. In both the public and the private sectors, there are people with disabilities who are managers. There are people who are blind, deaf, or speech-impaired or who use wheelchairs who are excellent managers or presidents of companies.

Q. Where can I find information on Section 504 of the Rehabilitation Act? What is the difference between Section 504 and the Americans with Disabilities Act?

A. Law schools, law firms, your U.S. senators and representative, the EEOC, federal contractors, colleges and universities, and human-resources departments

have information on Section 504 of the 1973 Rehabilitation Act.

The act prohibits federal agencies and their grantees and contractors from discriminating against people with disabilities in employment, programs, and activities. Title V of the act is the legislative forerunner of the ADA, and it introduced the concepts of "qualified individual with a disability" and "reasonable accommodations."

Section 504 prohibits discrimination against qualified people with disabilities in federally funded programs and activities. The ADA expands the prohibition against discrimination and prohibits discrimination against people with disabilities in employment, transportation, public accommodation, and activities of state and local governments.

Q. If disabled people are such excellent workers, why aren't more disabled people working?

A. There is an erroneous perception that people with disabilities cannot work or be productive. This is one of the main reasons why huge numbers of people with disabilities are unemployed. Another reason is that many employers are unaware of the products on the market for disabled people to use on the job. A third reason is that employers do not know where to look for qualified disabled employees.

And still another reason is that some employers have had poor experiences with disabled employees. Most of these employers reported that the disabled employee was not properly trained or lacked the education to perform the tasks.

The flood of assistive-technology products available, the ADA, and other federal legislation regarding employment opportunities and educational opportunities are producing a new breed of disabled workers. They are intelligent, technologically oriented, and driven to succeed.

Q. How much does unemployment among disabled people cost U.S. taxpayers annually?

A. The number of unemployed disabled people nationwide is a major economic burden on the country. Each year the federal government spends 40 times more money to support people with disabilities than it spends to help them prepare for and find jobs. The lack of participation in the labor force by people with disabilities costs the nation's economy more than $200 billion annually.

Q. How can I persuade an employee not to file an EEOC discrimination suit against me?

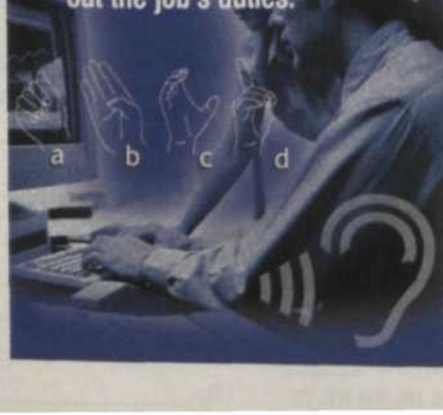
A. When you know that an employee is considering filing an EEOC complaint against your company, the best recourse is to discuss any grievances with the employee before the suit is filed. There are resolution-conflict specialists who work with employers and employees to solve problems. The EEOC and the American Bar Association can help you in this area.

If an employee files an EEOC complaint or discusses doing so, do not threaten to fire the employee. It's a mistake that employers often make, and the results generally are disastrous.

Q. How can I be certain that the disabled employee I hire is the right person for the job?

A. An employer's only obligation to a person with a disability in a hiring decision is being certain of the person's qualifications for the position. If the person qualifies for the position, then offer it. Once hired, the disabled employee is responsible for carrying out the job's duties. If the disabled employee can't do the job, the employer is not under any obligation to keep the employee. Disabled people who are working or looking for work want the opportunity to succeed. They are willing to stand on their job performance.

An employer's only obligation to a person with a disability in a hiring decision is being certain of the person's qualifications for the position. If the person qualifies for the position, then offer it. Once hired, the disabled employee is responsible for carrying out the job's duties.



Q. I feel nervous when interviewing a disabled person. How can I overcome this?

A. Feeling uneasy around disabled people is not uncommon. When people ask me how they can overcome such uneasiness, I tell them my seven-step approach to talking to people with disabilities. I tell them that I stutter, and that I was nervous when I interviewed a person with cerebral palsy for a writing and researching position. Here's how I dealt with the nervousness:

1. I focused on the person, not the disability.

2. I stayed calm and remembered I was interested in the person's ability.

3. I asked the person about their disability in a positive way. For example, I asked, "Do you have any concerns about using a telephone or appearing before groups of people?" I also asked, "Do you know any famous people who have [cerebral palsy]?"

4. I was not overwhelmed by the disability, and I knew that the person sitting in front of me was not.

5. I asked myself, "Is [cerebral palsy] a disability?" I might perceive stuttering, blindness, and deafness as disabilities, but to the candidate cerebral palsy may have been merely an annoyance rather than a disability.

6. I asked the same job-related questions I would have asked a nondisabled candidate.

7. I treated the person with respect.

I hired the person. I have hired other people with disabilities, as well as people without disabilities. NB

John M. Williams is president of Technical Communications, Inc., in Sterling, Va., a publishing and consulting company that focuses on disability issues. The company publishes Assistive Technology News, *a tabloid newspaper that informs readers of a wide range of assistive-technology products that can benefit disabled people.*

This is the first of a two-part series on employing people with disabilities. Part II will appear in the December issue.

★ ★ ★ ★ ★

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Woody Guthrie died in 1967.

But thanks to his legacy, a quarter of a million Americans have a better chance at a longer life.

HE DIED OF HUNTINGTON'S DISEASE, a devastating degenerative brain disorder caused by an inherited gene. If you inherit the gene, you eventually inherit the disease.

As of today, there's no escape, and there's no cure. But there's hope, thanks to an effort that's more than 30 years old.

Woody Guthrie, 1912-1967

Shortly before Woody's death, his wife, Marjorie, began to seek out other families affected by HD. She took her fight to Congress, to the medical research community, to health care professionals and to the public at large, and they all listened.

Marjorie succumbed to cancer in 1983, but her cause lived on in the form of the Huntington's Disease Society of America. Today, the Society is a nationwide network of chapters and affiliates supported by tireless, dedicated volunteers.

Each year, the Society hosts the Guthrie Awards Dinner, whose proceeds support the Woody and Marjorie Guthrie HD Research Fund.

The Guthrie Fund: Major Achievements

The fund established and supports a consortium of 13 major research laboratories in North America and Europe. They currently focus on four key areas of study: biochemistry, cell biology, cell models and animal models, and there's progress on all fronts.

In 1993, researchers isolated the gene and developed a gene test. Doctors can now determine the family members who are at risk and those who have escaped. Current research efforts concentrate on determining exactly what function the normal gene has and how its flawed counterpart causes HD.

Within the last few months, scientists have found that "protein balls," high levels of the specific protein that runs rampant in HD, accumulate in the brain regions that HD affects. These protein balls appear to be implicated in nerve cell death, and the discovery has given a new direction to HD research. We're closing in on an avenue for treatment.

The Guthrie Dinner: Thanks to Those Who Help

The 1997 Guthrie Awards dinner began a new annual tradition and netted $80,000 for research. It now serves as the kickoff event for the efforts that carry us forward through the year.

The 1998 dinner took place October 8 at the Marriott Marquis in New York City, honoring distinguished contributors to the battle against HD. The chairs were Norman Barham, Vice Chairman, J&H Marsh & McLennan; Nora Guthrie and Harold Leventhal, Woody Guthrie Foundation/Archives.

The *Woody Guthrie Award* is given to an individual in the entertainment industry who exemplifies Woody Guthrie's social activism and personal commitment to the visions and hopes of people everywhere. This year's honoree, singer and songwriter Pete Seeger, has traveled the same path Woody Guthrie followed since the 1940s and is an obvious selection, as was the initial honoree, Woody and Marjorie's son Arlo Guthrie.

The *Marjorie Guthrie Leadership Award* goes to a corporate leader who demonstrates humanitarian concerns for the health and well-being of others, both in business and in personal life. The 1998 recipient, Victor Doolan, president of BMW of North America, Inc., has given steadfast support to the Huntington's Disease Society of America, helping us meet our funding goals.

The *Guthrie Family Humanitarian Award* is given to a researcher or medical leader who demonstrates concern for the support of people with HD and their families through compassion and dedication. This year's honoree, Ira Shoulson, M.D., is a neurologist, a professor at the University of Rochester in New York and chairman of the Huntington Study Group, founded in 1993 to develop multi-center clinical trials for HD.

Winning the War: the Next Steps

There's still much to be done. If you'd like to attend the next awards dinner, please contact us at the phone number below.

And if there's any other way you might be able to help, please let us know. We're gaining ground, but the enemy won't give up easily.

The 1998 Guthrie Awards

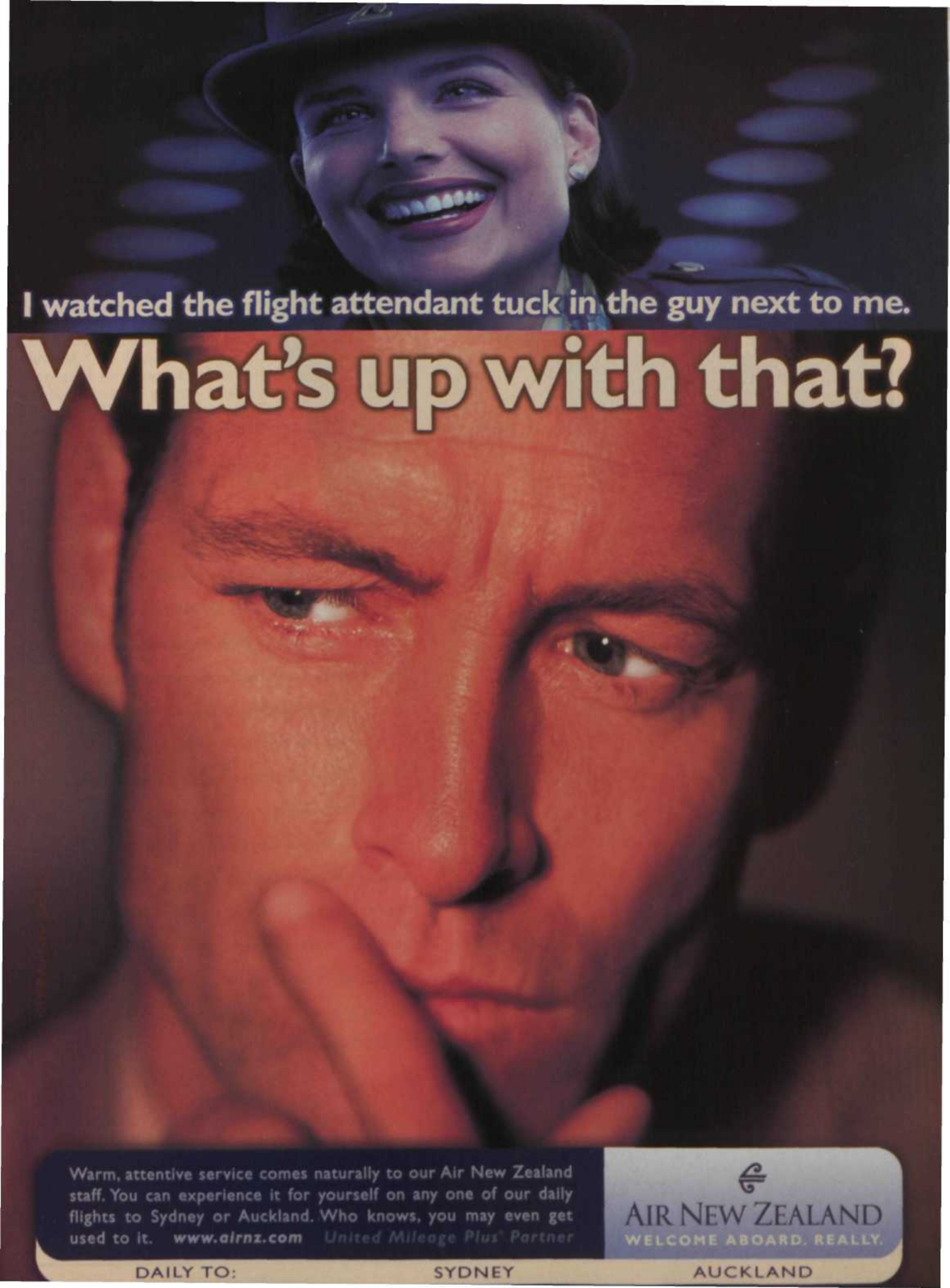
The Woody Guthrie Award
PETE SEEGER
Singer/Songwriter

The Marjorie Guthrie Leadership Award
VICTOR DOOLAN
President, BMW of North America, Inc.

The Guthrie Family Humanitarian Award
IRA SHOULSON, M.D.
Louis C. Lasagna Professor of Experimental Therapeutics
University of Rochester

Huntington's Disease Society of America

158 West 29th Street, 7th Floor, New York NY 10001-5300 Phone, 800-345-4372, ext. 23 Fax, 212-239-3430 On the Web, hdsa.mgh.harvard.edu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What's up with that?
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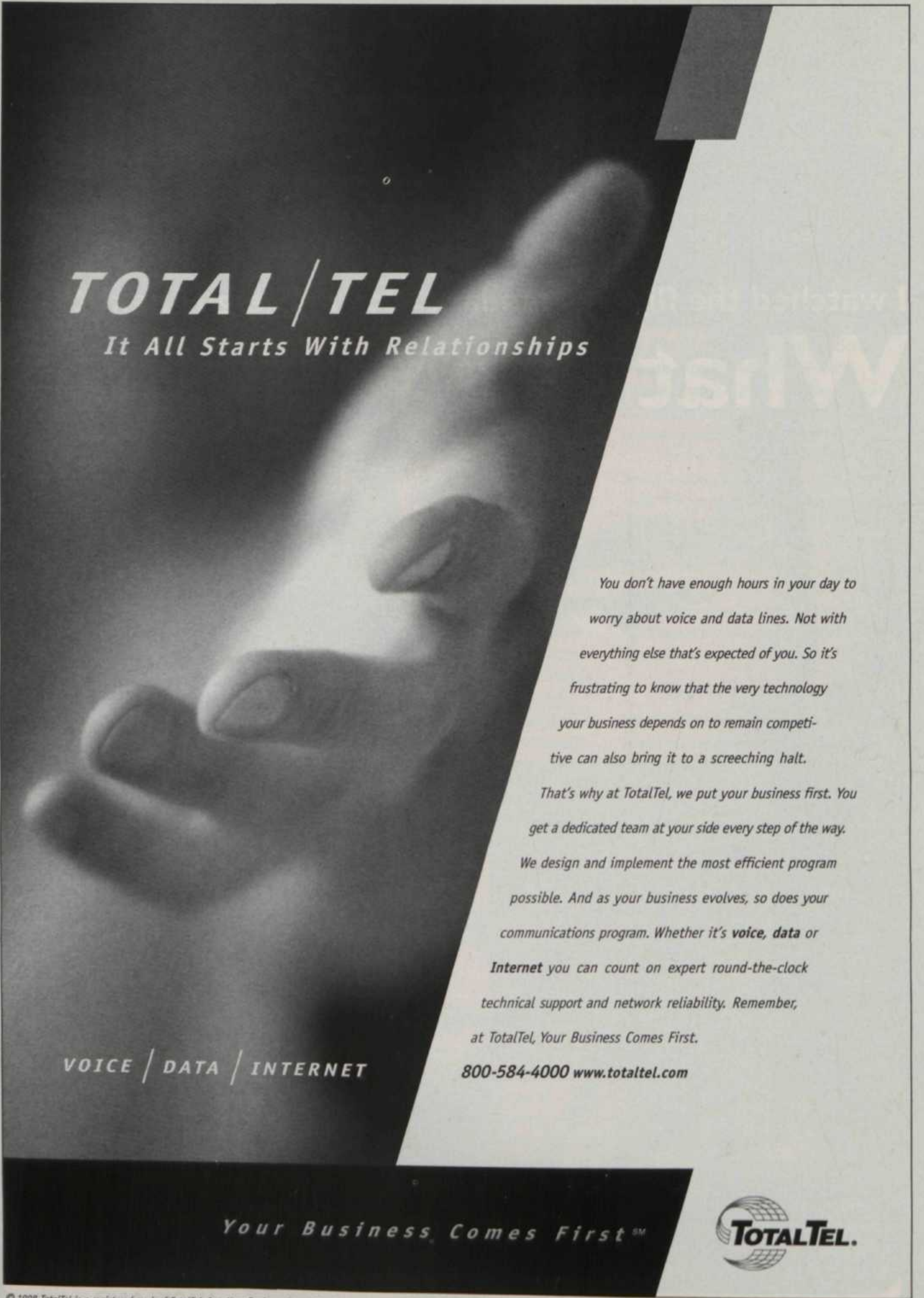
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Tools For Targeting Customer Service

Database software can help you tailor your approach to customers, improve your service, and thereby enlarge your bottom line.

By Tim McCollum

Terry Boyle gets customers to come back—and it's a computerized database that helps him do it.

Boyle is vice president of Game-Set-Match, a tennis-services firm in Englewood, Colo. He says the company has increased its revenues at an average annual rate of 45 percent over the past four years by focusing on existing customers for repeat sales and by providing personalized service.

The company's vast database of customer information makes this marketing approach possible, he says.

Generating repeat business costs less than attracting new customers and a lot less than winning back dissatisfied customers. So it's important for growth-oriented small firms such as Game-Set-Match to concentrate on giving buyers reasons to return, says Claudio Marcus, vice president of marketing with TargetSmart! Inc., a marketing-software company in Denver.

The database at Game-Set-Match tracks the buying behavior of every person who takes lessons from the firm, plays in one of the leagues it organizes, or makes a purchase in its small retail shop—a total of more than 10,000 people in 4,800 families.

"The use and marketing of our database has kept us ahead of the competition," says Boyle. "We can target-search our customer base. If there's a program we need to promote, such as a league, we can look up who was in that league last year and put a notice out to that particular group."

One-To-One Marketing

Donna Fluss, a research director at Gartner Group, a technology consulting company based in Stamford, Conn., says, "The more you know about your customers, the more effective you'll be at increasing their value to your organization."

Fluss says that every contact that a company has with its customers is an opportunity to impress them with its service. Customer databases help companies do this by providing employees with quick, convenient access to relevant information before they call customers. Such information includes previous purchases, questions asked, and problems incurred.

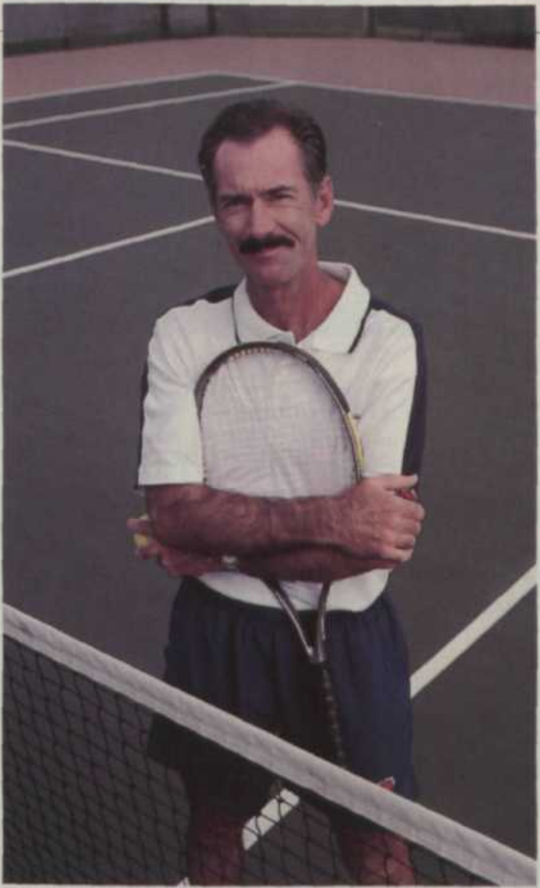

PHOTO: ©BARRY STAVER

A customer database *helps Terry Boyle, vice president of Game-Set-Match in Englewood, Colo., market the firm's tennis services.*

This form of relationship marketing—sometimes called one-to-one marketing—is a strategy that large firms have been using for more than a decade to increase customer retention. Now small businesses can hold their own with their big-business competitors by using point-of-sale, database, contact-management, call-center, and customer-service and support software.

Boyle started automating Game-Set-Match's database two years ago as a way to pinpoint marketing campaigns better. At the time, the company was advertising in local newspapers and through mass mailings. But that scattershot approach wasn't giving Boyle the results he wanted.

After trying a variety of database programs, he set up a customer-management system by combining the company's POS*IM point-of-sale software, from Ensign Systems Inc. in Salt Lake City, with TouchBase Pro, a contact-management program from Now Software Inc., since acquired by Qualcomm Inc. of San Diego. TouchBase Pro has been superseded by software called Now Up-to-Date and Contact.

The system runs over a network of five Macintosh desktop computers and two Apple PowerBook portables.

Boyle says the customer database has made Game-Set-Match's marketing campaigns more effective and cost-efficient. By searching the database, Game-Set-Match has attracted players and students to its retail stores to buy equipment and get repairs. In addition, the firm has used the database to sign up retail customers for lessons and tennis leagues.

Companies should segment their databases to determine who their frequent and big-spending customers are and then pamper those customers and give them better values, advises TargetSmart's Marcus, co-author of *TargetSmart!: Database Marketing for the Small Business* (The Oasis Press, $19.95).

Game-Set-Match has used its database to identify customers who frequently make purchases and to target these "gold" customers through a newsletter and special offers.

"We have tennis players that we've gotten to know on a personal basis," Boyle says. "They have come to expect to receive our newsletter. And they expect the post card mailings and a phone call to follow up."

From Card Files To Computers

Janitorial-services contractor USA Clean Inc., based in Springfield, Ill., used to keep its customer list on index

cards. Now it maintains a database of more than 16,000 customer contacts in contact-management software called Goldmine from Goldmine Software Corp. in Pacific Palisades, Calif.

USA Clean's owner, Bruce Bushert, made the switch in 1991 when it became too cumbersome to keep track of the firm's growing clientele through the manual filing system.

The Goldmine software, which was in its first version at the time, enabled the company to store information on customers and keep a record of what the firm had done for them.

Over the years, as the software was updated, USA Clean automated its telemarketing and customer correspondence as well. Bushert and other employees can draft and print letters directly from the software, and the program reminds them when they should follow up.

Moreover, the Goldmine database has been set up with organizational charts of contacts within each of USA Clean's client firms. That gives USA Clean employees a record of the company's contact with a client and the services that have been rendered, and it makes it easier to resolve problems.

More important, Bushert says, the software has increased the company's ability to follow through on work orders with clients, which gives customers added confidence in the firm. "If we say we're going to do something, we get it done." Bushert says. "Everything is documented, and the information is shared across our computer network."

PHOTO: ©SAL DIMARCO—BLACK STAR

Knowledge-management software *increased the effectiveness of help-desk employees at Paradigm4, says John Lucich, vice president of the Fairfield, N.J., firm, which installs wireless telephone networks for corporations and government agencies.*

Beyond The Facts

Technology can do more, though, than increase a company's knowledge of customers. It can help the company automate the way it serves customers and responds to problems. Automated processes such as fax-on-demand and automated call-distribution (ACD) systems can be effective ways to serve customers.

Fax-on-demand systems allow cus-

Making Web-Based Service Work

The World Wide Web enables even small companies to provide around-the-clock customer service. However, customers may find Web-based service frustrating and impersonal if it isn't implemented correctly.

To be successful, customer-service Web sites must provide easily accessible, up-to-date information as well as a mechanism for resolving service problems quickly and completely.

The following products can help small firms use the Web to give their customers red-carpet service.

CustomerNow (SiteBridge Corp., 1-800-791-5057, *www.sitebridge.com*)

This high-powered software helps companies not only provide personalized service online but also manage sales leads gathered from visits to their Web sites.

CustomerNow is loaded with automatic-response features that push desired information to customers.

These features also enable customer-service personnel to quickly answer questions posted online through a chat session.

Moreover, CustomerNow automatically qualifies sales leads based on information that customers request online and then routes them to a live representative.

CustomerNow costs $50,000 for software, installation, and training.

ESP Li@ison (CustomerSoft Inc., 1-888-377-9980, *www.customersoft.com*)

Companies can use the Web to complement their telephone service offerings using CustomerSoft's ESP Li@ison. The product works in concert with the company's Expert Support Program customer-support software, a database of problem solutions that a firm's telephone support personnel can use to help customers.

ESP Li@ison links Web-site visitors to a company's internal support process. Online customers can then help themselves by tapping into the same solutions database that in-house support personnel use.

Price: Starts at $1,000 per customer-support person, depending on the configuration.

Internet Message Center (Mustang Software Inc., 805-873-2500, *www.mustang.com*)

This electronic-mail-based support solution makes it easier for companies to automate and manage customer inquiries from a Web site or via direct e-mail. Internet Message Center creates a queue of incoming messages that shows the time they were sent and their topics. The messages can be forwarded to staff members.

IMC also provides a mechanism for monitoring message volume and response time. It works with leading e-mail programs, including Qualcomm Eudora, Microsoft Outlook, and Netscape Messenger.

Prices start at $1,500 direct from Mustang.

iServe (SneakerLabs Inc., 1-888-397-5227, *www.sneakerlabs.com*)

Even online customers want to communicate with a person sometimes; by using iServe, companies can offer live interactive support on their Web sites.

Customers who visit a firm's site can type in questions and receive answers right away from a customer-support representative. Support personnel can also display on the customer's screen Web pages containing detailed information and send helpful software files to the customer's PC.

Prices start at $4,995 for 10 customer-support people.

NeuroStudio (neuromedia, Inc., 415-752-3793, *www.neurostudios.com*)

NeuroStudio uses online "robots" to provide fast answers to customer questions. When customers access the Web site, they are greeted by a computerized help representative. Customers type in questions, and a robot displays the answers. Moreover, the robots are designed to learn from previous customer problems, so they can anticipate future questions and provide solutions more quickly.

Prices start at $399 direct from Neuromedia, Inc.

tomers to dial in and request that specified information be faxed to them. With ACD systems, customers call in and choose among a number of service options, either by touching a number on their telephone keypad or by using voice commands. The system routes each call to recorded information or to a person who can help the caller.

In addition to these systems, many companies provide service on World Wide Web sites. (See "Making Web-Based Service Work," on Page 50.)

Help For The Help Desk

Technology can also give employees the knowledge they need to serve customers better.

Building a knowledge base has allowed Paradigm4 to establish a reputation for fast and expert service after just three years in business. The Fairfield, N.J., firm installs wireless telephone networks for corporations and government agencies such as police departments.

One of Paradigm4's selling points is its customer-support desk, which responds to problems 24 hours a day, seven days a week.

> "The more you know about your customers, the more effective you'll be at increasing their value to your organization."
>
> —Donna Fluss, Research Director, Gartner Group

To increase the effectiveness of its help-desk workers, Paradigm4 installed knowledge-management software called Top of Mind from Molloy Group Inc., a software developer in Parsippany, N.J.

Top of Mind helps Paradigm4's 20 customer-support representatives lead callers through questions designed to diagnose problems and provide possible solutions. Support reps log each problem in Top of Mind, and the software responds with a series of questions that might be related to the problem.

If it is a common problem, the questions will prompt a solution that has helped others.

If the problem is new, however, the database records it and the solution that the rep devises to fix it. This increases the accuracy of information available to reps who might face a similar problem in the future. Thus, the database becomes a sort of company memory.

"Top of Mind has improved customer service by allowing us to provide quicker resolutions to problems," says John Lucich, vice president of Paradigm4. "Our customers see nothing but consistent service each time they call. As far as they're concerned, the analyst is solving their problems."

Lucich says service has been a deciding factor for customers in choosing Paradigm4 to install their wireless systems. By offering 24-hour service, the company can spare customers hours or even days of downtime.

"Analyze What You Are Doing"

Although Paradigm4's database contributes to the knowledge of the company's help-desk personnel, that result doesn't always occur when a company automates its customer-service functions, says Gartner Group's Fluss.

Too often, companies use technology to automate a manual process rather than look for ways to use technology to do things in a different, more efficient manner, says Fluss. "You need to analyze what you are doing, take out the unnecessary steps, and then automate."

Firms should keep customer needs in mind when automating service functions, Fluss says, and shouldn't make customers go through a complex automated system if they expect personal attention.

Even the most automated systems should give people the option to talk to a person.

Fluss says many companies want to use technology to cut the amount of time and money it takes to serve customers. Instead, she says, they should use technology to give their customers more-personal service.

The Personal Touch

Finally, make sure that employees are trained to help customers. They not only need to know how to use the company's customer-service database but also need to have the personal skills to provide the attention that customers demand.

"Technology is important, but so are people," Fluss says. "Service takes technology, process, and people, and all of them are critical."

As firms such as Game-Set-Match, Paradigm4, and USA Clean will attest, a personal touch might be the only quality that separates a company from its competition. NB

SPECIAL REPORT

1999 Luxury Cars: Wheels Of Progress

Manufacturers are tapping technology to add sophisticated electronics to the offerings in this booming market.

By Julie Candler

Nothing makes car buyers want to indulge themselves more than the kid-in-a-candy-store feeling they get when they look over a well-designed and well-built luxury car. And the temptations are more numerous than ever for model year 1999.

The market for luxury and so-called near-luxury cars is booming. According to *Ward's Automotive Reports* in Southfield, Mich., sales of these cars for this year through August were about 844,000, well ahead of last year's pace. Sales for the full year are expected to exceed last year's total of about 1 million.

What's driving the luxury-car market? Baby boomers, says Christopher Cedergren, managing director of Nextrend, an automotive marketing consultancy in Thousand Oaks, Calif. Many boomers—including a large contingent of small-business owners, Cedergren notes—are moving into their affluent years.

"They love to spend their money on luxury goods," says Cedergren. "The strongest-selling vehicles are the higher-priced models."

That may be so, but in many cases manufacturers have raised prices for 1999 only slightly, and the base prices for some models are lower than they were for 1998.

Jay Houghton, director of automotive marketing in the Southfield office of A.T. Kearney, Inc., a market-research firm in Chicago, says there has been a move back to luxury cars from comparably priced sport-utility vehicles. Houghton says buyers are realizing that "a good luxury sedan will outperform an SUV."

Adds Houghton: "At present, domestic manufacturers are wishing the boom was louder for them. The biggest luxury demand now is for the imports."

Houghton and Cedergren say much of the consumer appeal of luxury cars is in the electronics, and the thriving market for luxury cars is motivating automakers to add sophisticated technology to their lineups. On one model, the Saab 9-5, the front seats contain tiny fans that cool the car's occupants quickly, and the glove compartment is refrigerated.

Some automakers have replaced cigarette lighters with power receptacles that can be used for cellular phones, radar detectors, fax machines, laptop computers, and more.

Even the task of driving has become easier with innovations such as Mercedes-Benz's electronic stability program, or ESP. The system acts against skidding and sliding by maintaining the driver's intended direction. When ESP senses a disparity, it immediately selects and applies one or more brakes to help the driver maintain control.

Lincoln's LS *will come in six- and eight-cylinder versions and is designed to attract young buyers.*

In the following descriptions of 1999 cars' major features and innovations, luxury models are listed in the first group, near-luxury models in the second. Some prices do not include destination charges, and if prices for 1999 models were not available, 1998 prices are given.

Two-seater roadsters such as the Chevrolet Corvette and the Porsche Boxster are not covered in this article because of their limited production numbers. Unless otherwise noted, the vehicles described have front-wheel drive.

Over $35,000

BMW

Two handsome, four-door wagons, the rear-wheel-drive 528i and the 540i, arrived in October. The five-passenger, midsize vehicles are derived from sports sedans introduced in model year 1997. The 528i


ANTICIPATING YOUR NEXT MOVE
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($41,270) is powered by a 2.8-liter, 193-horsepower, six-cylinder engine and offers sporty option packages. The engine in the 540i ($54,050) is a 4.4-liter, 282-horsepower V-8; options include a cold-weather package with heating for the front seats and steering wheel.

Cadillac

The seats of the DeVille d'Elegance, DeVille Concours, Eldorado Touring Coupe, and Seville STS ($41,960 to $47,660 for 1998) have an optional massaging system.

A Bose entertainment system that receives digital data such as stock quotes and traffic conditions along with radio transmissions is standard on the Eldorado Touring Coupe.

Infiniti

The full-size, five-passenger Q45 ($48,695) has its analog clock at the center of the instrument panel. The headlight styling has been revised, and the xenon headlamps provide excellent visibility. The front grille's chrome area has been reduced.

BMW 528i

Cadillac DeVille Concours

Infiniti Q45t

Jaguar

The four-door XJ series sedans have a 4-liter AJ-V8 engine. Each of the rear-wheel-drive vehicles—the XJ8, the XJ8L, the Vanden Plas, and the XJR ($55,200 to $68,450)—seats five passengers.

Lincoln

Side air bags, which provide head protection in side impacts, are standard for the driver and front passenger of the full-size Continental four-door sedan ($38,995). The horsepower of the 4.6-liter V-8 has been increased to 275 from 260, and the audio system is new.

The full-size, six-passenger Town Car (also $38,995), a four-door sedan, also has side air bags and a new audio system. A fold-down armrest in the center of the rear seating area is standard on the Executive series.

Mercedes-Benz

A slightly shorter and lower-to-the-ground S-Class ($65,295 for 1998) is to debut in the spring of 1999.

The rear-wheel-drive E-Class sedans ($42,400 to $51,300) offer side-impact protection—called Windowbag—as standard. The "air curtain"—which is 6 feet long, 14 inches high, and 2 inches thick—works with door-mounted side air bags to protect front and rear occupants.

An electronic stability program is standard on the E430 and optional on other E-Class models. Leather seating inserts have been added to the E320 and E430 sedans.

Rolls-Royce; Bentley

A 322-horsepower BMW V-12 engine replaces Rolls-Royce's V-8 in the Silver Seraph four-door sedan, which was introduced in the U.S. market this spring. Priced at $216,400, the Silver Seraph replaced the Silver Spur. Its styling is different from the Silver Spur's but retains the Rolls-Royce look.

The new Bentley Arnage has a redesigned suspension system and increased body rigidity. It's powered by a twin-turbo, 4.4-liter BMW V-8 with 350 horsepower. The price is $199,990; the Bentley Turbo RT it replaced was $211,600.

Under an agreement reached in July, the British manufacturer of Rolls and Bentley cars has been split. The deal gives Bentley to Volkswagen, which purchased Rolls-Royce Motor Cars Ltd. but not the rights to the Rolls-Royce name.

BMW bought those rights and will allow Volkswagen to use them through 2002,

Jaguar Vanden Plas

Mercedes-Benz S-Class

Rolls-Royce Silver Seraph

after which BMW plans to create a company to build Rolls-Royces and Volkswagen will build Bentleys.

Volvo

The front-wheel-drive S80—a full-size, four-door sedan that is the top of Volvo's line—is touted as "one of the world's safest cars" by the manufacturer. In a side-impact collision, an inflatable curtain drops down over the door windows in the front and rear to cushion passengers' heads.

An exclusive whiplash-protection system shifts the backrest and head restraint backward in rear-end collisions. Volvo says this reduces the G-forces on the head and neck by 50 percent.

The S80's electronic stability system prevents slips and skids, and traction control helps in slippery conditions. Among the S80's anti-theft protections is optional laminated glass for all the windows that is

designed to prevent smash-and-grabs.

The S80's top-of-the-line engine is a 2.8-liter T-6 (the 'T' stands for turbo). It has two turbochargers, each operating three cylinders.

The S80 is priced from $36,395 for the base model with a 2.9-liter, in-line six-cylinder engine to $40,960 for the model with the twin-turbo T-6. Each price includes a $575 destination fee.

$25,000 To $35,000

ACURA

The five-passenger 3.2TL sedan has been re-engineered front to back, and enough interior room has been added to move it into the midsize category. Yet it is priced lower ($27,950) than its predecessor ($33,585 for 1998).

Power comes from a 24-valve, 3.2-liter, 225-horsepower V-6. It is coupled with a four-speed SportShift automatic transmission. A traction-control system applies one or both front brakes to control spinning. The 3.2TL has a long list of standard conveniences, including heated front seats, driver's seat lumbar adjustment, a power moonroof with a sliding shade, powered and heated door mirrors, a Bose sound system, and keyless entry.

Volvo S80

Acura 3.2TL

Audi A6 Avant

AUDI

The Audi A6 Avant ($37,100) is a wagon version of the compact A6 sedan. The roomy Avant has Audi's Quattro permanent all-wheel drive. Its 2.8-liter, five-valve V-6, with 200 horsepower, is paired with a five-speed automatic transmission with Tiptronic, a system that allows the driver to shift manually.

Among standard features are seat-mounted side air bags for the front occupants, dual-zone automatic climate control, 12-way power front seats with electric lumbar adjustment, xenon headlights, and headlight washers.

BMW

The 323i comes with more standard equipment and more interior room than the 318i it replaced, yet the 323i's price ($26,970 including destination charge) is only $250 higher than the 318i's. The 323i has a restyled body, and a 170-horsepower, six-cylinder engine replaces the 318i's four-cylinder.

The new 328i, priced at $33,970 including freight, is just $300 more than the earlier model, yet its 2.8-liter, six-cylinder engine produces stronger torque and is quieter.

Both the 323i and the 328i are available with a smooth new five-speed automatic transmission. Standard features on both models include all-speed traction control, stability-enhancing cornering brake control, front-seat side-impact air bags, and a head-protection system of inflatable tubular restraints. There's a long list of options, including xenon headlights.

BUICK

The full-size, six-passenger Park Avenue's taillight appearance has been revised, and the sound system has been upgraded. Michelin tires are standard on the top-of-the-line Park Avenue Ultra ($36,025). Buick has dropped the Riviera.

CHRYSLER

A boldly styled, full-size 300M sports sedan, based on the five-passenger platform of the LHS, arrived this spring as a 1999 model. Its stiff but sporty ride and nimbleness give it a European flavor, and there is an optional package that further improves handling.

An AutoStick high-performance automatic transmission can be operated manually. At $28,895 (including a $595 freight charge), the car is loaded with standard features.

Buick Park Avenue

Chrysler LHS

Lexus ES 300

The redesigned LHS ($28,995), aimed at over-40 buyers, is 10 inches longer.

The 300M and the LHS are powered by a new 3.5-liter V-6 aluminum engine.

LEXUS

The top-selling Lexus five-passenger midsize sedan, the ES 300, has a new drivetrain. A new V-6 engine—introduced recently in the RX300 sport-utility vehicle—replaces an all-aluminum V-6. The 3-liter engine uses a system—called continuously variable valve timing—that produces extra power for passing and provides excellent fuel economy. The ES 300 ($31,400) also has a new electronically controlled automatic transmission that adjusts shifting patterns for improved responsiveness when cornering and on hills.

Lincoln
Two new rear-wheel-drive vehicles, the LS6 and LS8, are scheduled to arrive in late spring. The LS6 is expected to have a 3-liter V-6; the LS8, a 3.9-liter V-8. The five-seat Lincolns are designed to attract young buyers and to compete with near-luxury vehicles such as the BMW 3-Series and the Mercedes C-Class.

Mazda
New styling touches on the Millenia sedan ($26,995) include a redesigned grille and chrome trim on the rear panel, door handles, and shift and hand-brake levers. Automatic-shut-off headlamps are standard. The base model of the compact four-door, which seats five, is powered by a 2.5-liter, 170-horsepower V-6.

Mercedes-Benz
A supercharged 2.3-liter engine boosts horsepower to 185 from 148 on the four-cylinder C230 ($31,200), which is now called the C230 Kompressor. The engine also powers the SLK roadster. Sport-package options are available on the C230 Kompressor and the V-6 C280 ($35,600). Leather replaces vinyl on the seats of all C-Class sedans.

Mazda Millenia

Mitsubishi Diamante

Oldsmobile Aurora

Mitsubishi
The Diamante performance sedan comes in one model that replaces the ES and LS ($28,120 and $33,520 for 1998). New standard features include a keyless entry system, front and rear map lamps, and power releases for the trunk and fuel door. An optional cold-weather package includes traction control and heated front seats.

Nissan
The midsize, five-passenger Maxima ($21,989 to $27,389 for 1998) has added an ignition immobilizer, which makes it impossible to start the car without the key. Traction control is now an option on models with automatic transmissions.

Oldsmobile
Except for refinements to improve engine stability, the flagship Aurora touring sedan ($36,899) is unchanged. The midsize, five-passenger Aurora has a 4-liter, dual-overhead-cam V-8 engine.

Pontiac
The OnStar communications system, which combines cellular-phone and satellite technologies to provide emergency and routing services, is a dealer-installed option for the 1999 Bonneville SE ($23,495), SSE, SSEi, and SLE. MagnaSteer, a power-steering system that requires less driver effort at low speeds and more as speed increases, is standard on the SSE and an option on SE models. Remote keyless entry becomes standard on the SSE and available on the SE.

Saab
A replacement for the 900, named the 9-3, arrived in May in three versions: a compact four-door sedan with a hatchback, a two-door coupe with a hatchback, and a four-seat convertible. They range in price from $26,050 to $37,123.

Saab says there are more than 1,000 technical improvements and interior-design changes. They include a computer that the driver can use to, among other things, set a chime to go off when the car exceeds a certain speed. It is standard on the premium five-speed 9-3SE. The 9-3's wider seats have deeply contoured backrests for improved side support.

The four-cylinder, 2-liter turbo engine attains 185 horsepower and is designed for high performance and fuel economy. This fall, a 200-horsepower, 2-liter turbo engine will become standard on SE models.

Pontiac Bonneville SLE

Saab 9-5

The midsize, five-passenger 9-5 also arrived this spring. Its turbo engines—a 3-liter V-6 with 200 horsepower or a 2.3-liter four-cylinder with 170 horsepower—provide quick acceleration. A temperature-zone system can keep the driver warmer or cooler than passengers, and optional ventilated seats help keep front passengers cool. There's even a refrigerated glove box to keep food and beverages chilled.

Each model is available with the OnStar communications system (see the description under Pontiac).

Toyota
The Avalon, a full-size, five- or six-passenger sedan ($24,988), adds standard daytime running lights, headlamps that turn off automatically, color-coordinated foglamp covers, and heated, color-coordinated power mirrors.

Volvo
A new version of the S70 GLT sedan has been introduced for those who want all-wheel drive for winter driving but don't go off-road. The on-demand system normally operates with 95 percent of the power to front wheels and 5 percent to the rear, but it transfers power to wheels that need it in a skid.

The five-passenger S70 AWD ($33,520 plus $575 destination charge) has a five-cylinder turbo engine with 190 horsepower. NB

INSURANCE

An Advocate In Your Corner

An independent insurance adjuster can handle your property-loss claim so you can focus on your business.

By Juan Hovey

Picture this: A fire strikes your business, melting your computers, trashing your production equipment, and destroying all of your work in progress. Also ruined are your office furnishings, your communication system, and many of your records.

What's the first thing you do?

If you're like Norman F. Liedtke, president of Meyer Associates, Inc., an Ardmore, Pa., firm that designs interior commercial space, you hire a public insurance adjuster to haggle with your insurer—so that you can concentrate on getting your business up and running again.

After fire gutted Liedtke's operations one cold night in January 1994, he wasted no time finding a public adjuster to negotiate his claim. He concentrated on marshaling his employees, reassuring his clients, and resuming business.

As the term suggests, public insurance adjusters help people settle claims resulting from property losses. In essence, they do the same work as adjusters employed by insurance companies—but on behalf of the policyholder, not the insurer. And because they understand the fine print of any property-insurance policy, public adjusters level the playing field for the business owner.

A Question Of Necessity

Insurers typically don't welcome public insurance adjusters with open arms. "Hiring a public insurance adjuster should be a measure of last resort—and only in cases where the policyholder and the insurer are worlds apart in trying to settle a claim," says Robert Hartwig, a vice president of the Insurance Information Institute in New York City. The institute is a nonprofit trade association sponsored by property/casualty insurers.

But Liedtke, whose claim exceeded $2 million, says that hiring a public adjuster is the smart course of action for any business owner with a big property loss. It takes work to settle big claims, he says, and if you don't know your insurance policies backward and forward, you stand a chance of winding up with less than you should from your insurer. Worse, the time you spend worrying about your claim is time you lose in the effort to put your business back on its feet.

Liedtke sensed this the moment he saw his office engulfed in flames that night nearly five years ago. An old radio had shorted the wiring in a wall, and bad weather delayed firefighters in getting to the site. Everything went up in smoke. On the following Monday he decided to "hire somebody to assist me with the claim," he says. "By Wednesday we were back in operation."

Liedtke's adjuster, Stephen Figlin, president of TAG—The Adjustors Group, Inc., in Philadelphia, inventoried the items destroyed in the fire, made sure that Liedtke complied with all requirements in his insurance policies—for example, taking steps to prevent further damage—and began an assessment of Liedtke's claim under his business-interruption coverage.

Figlin secured advances from Liedtke's insurer, prepared the paperwork supporting the claim, and handled all contact with the insurer's adjusters.

PHOTO: ©SAL DIMARCO—BLACK STAR

After fire damaged *Meyer Associates, a commercial-design firm, Norman F. Liedtke, president, hired an independent adjuster.*

Fees And Procedures

At what point do you need a public adjuster? As a practical matter, it pays to hire one when your claim threatens to take more of your time than you can afford. Public adjusters earn contingency fees—usually 10 percent of whatever settlement they negotiate, with the percentage declining as the settlement rises above $100,000.

The contingency fee cuts into the settlement check, of course, and it should raise a red flag to any business owner who considers hiring a public adjuster, according to Hartwig of the Insurance Information Institute.

"Really, your first step is to notify your insurer of your loss," Hartwig says. "The insurer's own adjuster will have immediate access to your policy and can determine what it does and does not cover. The business owner should not jump to using a public adjuster because he or she may wind up with less money in hand when the settlement comes through."

If you do need a public adjuster, it pays to hunt for a good one. A crowd of free-lance public adjusters got to the scene of Liedtke's fire before he did in 1994. He ignored them, choosing instead to seek references from clients in the insurance-brokerage business. (Other good sources are lawyers, accountants, and other business owners who have dealt with disaster.)

"Because we had backup computer tapes, we could determine which jobs had already been sent out to bid and which papers were missing," Liedtke says. "In the end, the only material we lost was work we had in process that week.

"I probably spent several hundred hours with [Figlin] in the 19 months it took to get a final settlement. I maybe would have spent three times that trying to do the claim myself. I'd be hard-pressed to think when you couldn't get some value from a public insurance adjuster." NB

Juan Hovey is a free-lance writer in Thousand Oaks, Calif.

TRAVEL

Business Fliers' Bargain Hunting

Small firms' tactics for trimming air-travel costs range from using low-cost carriers to choosing alternative airports.

By Peter Weaver

For the past two years, business has been bearing the brunt of major airlines' continuing fare increases for seats purchased on short notice. In response, small firms are adopting a host of tactics to rein in their air-travel costs.

They are using alternative airports and low-cost airlines. They are making the most of the fare cuts that often occur when airlines compete head-to-head in a given market. And—when possible—they're taking advantage of advance-purchase discounts.

The fare increases that are making bargain hunters of many business travelers stem from airlines' use of a pricing system called "yield management." Under that system, seats available within days or hours of takeoff are typically priced much higher than seats booked far in advance.

While leisure travelers can get steep discounts by buying nonrefundable airline tickets a week or more ahead of time and staying beyond Saturday night, such options are seldom available to business people, who often have to reserve seats at the last minute.

"This yield-management thing is really squeezing the business traveler hard," says Gary Schmidt, co-owner of a travel agency in Oakdale, Minn., and author of *Fly For Less* (Travel Publishing, $19.95). "It's a system that's based on the maximum a customer will pay rather than the actual cost of the service."

Moreover, Schmidt says, charging what the market will bear for a flight depending on time and destination has created a plethora of fares that fluctuate daily, sometimes hourly, like a commodities market. "From Chicago to Dallas," he says, "there are 125 different fares, ranging from $180 round-trip to more than $800."

Dave Fuscus, a spokesman for the Air Transport Association, a Washington, D.C.-based organization of major airlines, explains the rationale for yield management: "When a business traveler can call for reservations at the last minute—and cancel at the last minute, if need be—this is our premium, time-sensitive product; that's why we charge more."

Airports And Airlines

Among the various ways that small firms try to cut air-travel costs significantly is the use of alternative airports in the vicinity of the trip's origin or destination—or both. Another money-saving method is to use low-cost airlines—usually small carriers or those just breaking into a market.

Pat Mitchell, an executive assistant who handles travel arrangements for American Inks and Coatings Corp., a printing-supply company based in Valley Forge, Pa., says, "We're routing some of our people through the Trenton [N.J.] airport, using Eastwind Airlines to fly to Greensboro, N.C., where we have a plant."

Although Philadelphia International Airport is closer to American Inks' location, Trenton is less expensive, Mitchell says. "The fare to Greensboro charged by a major airline flying out of Philadelphia runs more than $600 round-trip, and the Eastwind fare from Trenton can run less than $140." Eastwind, based in Greensboro, serves six Eastern cities and began flying in 1995.

"Where there are low-cost competitors in the market, fares decline sharply across the board," says Paul S. Dempsey, director of the Transportation Law Program at the University of Denver.

He also serves as vice chairman of four-year-old Frontier Airlines, a low-cost carrier serving cities nationwide from its Denver base.

The takeoff *in air fares for last-minute trips is making bargain hunters of business travelers.*

Moreover, Dempsey says, the battle might not stop at matching fares. "The major airlines add seat capacity and flight frequency to drive the low-cost competitors' load factors to below break-even levels."

The downside, however, is that if a low-fare competitor is thereby eliminated, Dempsey says, "the majors raise prices back up again to whatever the market will bear."

In a period when a major airline is matching a low-cost airline's fares, however, travelers sometimes can get the smaller carrier's fare level while using the larger airline, which might offer more-con-


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wouldn't you?
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Proactive Seat Selection

Although large airlines may capably defend their "fortress hubs"—and their fare structures—at various airports, some low-cost carriers are still finding innovative ways to compete.

In Detroit, for example, where Northwest Airlines—according to figures in a March report by the U.S. General Accounting Office—essentially controls Detroit Metro Airport, the carrier is facing competition from a tiny challenger, ProAir, which operates out of Detroit City Airport.

How has ProAir been able to go up against Northwest? "Chrysler and General Motors guaranteed us a certain volume of business from their employees," says Arthur Moreau, the company's director of market development. "We started with two brand-new [Boeing] 737-400 planes, and we're now flying to Indianapolis, Baltimore/Washington, Philadelphia, and Newark/New York."

ProAir's fares are lower than Northwest's, Moreau says, and "we are flying out of Detroit City Airport, which is nearer to town, which makes it more convenient for the auto companies' personnel to catch flights."

ProAir's fare structure, compared with most other carriers' fare structures, is the ultimate in simplicity. There are just two possible fares for each flight—coach and first-class. There are no advance-purchase requirements, no minimums or maximums on length of stay, and no Saturday-stay-over requirements. To keep its costs down, ProAir has no frequent-flier program, airport clubs, or city ticket offices.

Flights Added, Flights Canceled

While the big auto companies are providing the core business for ProAir, small businesses in the Detroit area are enjoying the low fares as well. Moreau tells of a retail furniture company that sent 25 employees to New York City for an event, choosing ProAir because of its low fares.

Says Norman Sherlock, executive director of the Alexandria, Va.,-based National Business Travel Association, which serves corporate travel managers: "You're going to see more businesses turning to low-fare, niche carriers like ProAir."

Moreau says business groups around the country are asking ProAir "how we worked the deal with Chrysler and GM so they can get something started in their headquarters' cities. Could be a trend."

Nonetheless, while ProAir is a budding success story so far for air-fare competition in Detroit, little Reno Air has had a much rougher time competing with Northwest.

Tom Parsons, publisher of *Best Fares Discount Travel Magazine*, based in Arlington, Texas, says: "Within two weeks after Reno announced that it was going to fly from its base in Nevada to Detroit and Minneapolis, Northwest announced that it was opening new flights to the same points with matching fares." Eventually, "Reno had to leave Minneapolis and Detroit."

Flexibility on flight times *and destination airports can add up to major savings on fares.*

Leisurely Steps

Meanwhile, many small firms are taking the same steps commonly used by leisure travelers to keep ticket prices to a minimum. For example, Anna Hoss, purchasing director for St. Louis-based Edison Brothers, which has specialty retailing chains, says, "We're asking our travelers to book flights at least seven days in advance to get the lower excursion fares."

Says Katherine Harner, travel manager for AII Corp., a defense contractor in Hunt Valley, Md.: "Even though these advance-booking fares don't permit changing dates or times without paying a $75 penalty, they're still a bargain because you save so much more in the long run."

Topaz International Ltd., a travel-management consulting firm in Portland, Ore., practices what it preaches to its corporate clients. "More of us are departing Saturday or returning Sunday," says Topaz's president, Valerie Estep, "because it saves a lot of money."

Booking off-hour flight times also cuts costs for Topaz travelers. "I took a 6 a.m. flight from Portland to Dallas, returning the next day on a 10:30 p.m.," says Estep, "and it cut almost 75 percent off the full-fare coach ticket cost." NB

Ferreting Out Low Fares

In *Fly For Less*, author and travel-agency owner Gary Schmidt of Oakdale, Minn., offers these fare-cutting suggestions:

Find a good travel agent. Studies show that travel agents typically provide lower fares than do airlines' direct reservation services. Pick a travel agent as carefully as you would choose a doctor, lawyer, accountant, or financial planner. Get recommendations from friends and colleagues.

Use consolidators. These airfare wholesalers can provide impressive savings on international flights and good deals on many domestic fares. Ask your travel agent to use consolidators whenever possible. *Fly For Less* lists 25 major ones.

Call airline tour or vacation-travel departments. Often you can get low fares without a Saturday stay-over if you book a simple package that generally includes a rental car or a hotel room.

Check the Internet. Some airlines' sites might list discounted fares. Among the World Wide Web sites containing low-fare information are *www.expedia.com*, *www.travelocity.com*, *www.biztravel.com*, *www.farefinder.com*, and *www.cheaptickets.com*.

Family Business

Surprises in a survey's results; the implications of selling; brothers divided by work and play.

OBSERVATIONS

The Need To Clarify Expectations

By Sharon Nelton

Sometimes, family-business consultants do a little research on their own, and sometimes they find some surprises in the results.

For example, Edwin A. Hoover and Colette Lombard Hoover of LSi Resource for Family Business Management, based in Oakbrook Terrace, Ill., found two surprises in the results of a survey they conducted of 5,000 family-business CEOs in the Midwest. About 100 chief executives or presidents responded to the survey, which focused on issues of bringing family members into the business and transferring leadership and ownership to the next generation.

Although 77 percent of the respondents agreed that it is preferable for family members to have outside employment experience before joining the family firm, Ed Hoover had expected the percentage to be higher. For many years, he points out, family-business professionals and family-business literature have encouraged the notion that outside experience is important to the success of successors.

CEOs who favored outside experience pointed out that it contributes to family employees' self-esteem, gives them credibility among nonfamily employees, and brings new ideas to a company. Nonetheless, says Ed Hoover, they were saying that "if people come into the business and they're motivated and they're committed to operating in a businesslike manner, having outside experience isn't all that important."

Colette Hoover found her surprises in the high proportions of "yes" responses to two questions:

■ "Should family members be held to the same performance and accountability standards as nonfamily employees?" (Ninety-three percent said yes.)

■ "Should compensation for family employees be based on the same criteria as nonfamily?" (Seventy-three percent agreed.)

Respondents sent comments such as "It would be inappropriate to accept anything less [than the performance standards for nonfamily employees] since family members should be an example to employees" and "This is important in order to show you are not favoring family."

But the respondents' views don't reflect what happens in real life, says Colette. Even though business families might agree that performance standards should be high, for example, they often don't spell out those standards or have job descriptions or performance reviews. (One consequence, says Colette, is that family successors don't get requisite feedback on how they are doing.) In addition, families find it painful to determine how much family members should be paid, she says.

What do the Hoovers, a husband-and-wife team, hope family-business owners will learn from their survey? The importance of planning, Colette answers. Owners "need to sit down with family members and talk about the issues" of bringing family into the business, she says, "and expectations have to be made clear."

For a free copy of the Hoovers' survey report, call (630) 495-7600 or send an electronic-mail message to *FamBzns@aol.com.* Be sure to say you read about the survey in *Nation's Business.* ■

PLANNING

What Happens If We Sell?

By Christopher J. Eckrich and Craig E. Aronoff

One of the most wrenching decisions any business-owning family can make is whether to sell the business.

For the past five years, well-financed bidders have been raising the prices they are willing to pay. The opportunity to cash out at record prices must be weighed, however, against family hopes for generational transitions that may promise pain and carry no guarantee of success.

In the still of the night, the owner whose dreams were to see the next generation leading the business contemplates the all-important question: "What is the right thing to do?"

There are times when selling is best for the family and the business. When this occurs, the family enters the world of the unknown—living without the company that has been so central to their lives.

Even when the business is being managed properly and its survival is not threatened, most owners' emotions are rocked as they relinquish control.

The degree to which the family is supportive of a decision to sell is likely to have an impact on the level of stress that the owner experiences.

Yet even when all agree that selling is the right thing to do, when lawyers and accountants begin to comb over the firm's

PHOTO: DEWAYNE SPENCE

Craig E. Aronoff, left, holds the Dinos Chair of Private Enterprise at Kennesaw State University in Kennesaw, Ga. Christopher J. Eckrich is a senior associate of the Family Business Consulting Group in Marietta, Ga., and is based in Fort Wayne, Ind. Copyright © by the Family Business Consulting Group, Inc.

PLANNING

financial history, the sense of losing privacy and control can be overwhelming.

Certain types of business sales can actually help families address difficult issues. For instance, when a business implements an employee stock ownership plan (ESOP) or other form of partial sale, the owning family is forced to move toward a more performance-based compensation system for family members and toward more-professional business practices.

The very reason for selling—money—often surprises former business-owning families by becoming a source of problems. Sudden liquidity for people whose assets were always tied up sometimes leads to uncontrolled spending, a propensity to "spoil" children and grandchildren, or a tendency toward bad investments—especially the temptation to buy other businesses.

ILLUSTRATION: TROY THOMAS

In effect, when you sell a family firm, you trade in your old business for a new one that can be quite foreign: money management. Just as stewardship is critical to the long-term success of a family business, stewarding the proceeds from a business sale is essential.

We believe that engaging the services of a strong financial adviser and discussing money management openly as a family will help everyone cope with this sudden access to cash.

Often the business owner wonders, "Who will I be if I sell this business?" Today, many owners remain as key employees for several years after the sale. Though their grip on the reins has loosened, they are able to contribute their wisdom and experience. This eases the transition from running the firm to retiring or starting a new career.

Some pursue a new business venture once their employment contract expires, or they might embark on a lifelong dream such as teaching or volunteer work. But many others chafe as new owners change the business or as they leave their life's work with no plans for building meaning into their new life. For them, the sale of the business will be viewed as a terrible decision no matter how much cash it produces.

Other family employees might feel disconnected from what has been "our business" when it suddenly has new owners. Even nonfamily employees often feel abandoned, reflecting the fear that they are now "just employees" rather than "part of the family."

Collectively, the selling family might face a daunting question: "Who are we as a family?" For many families whose members work together, the business serves as the tie that binds. Selling the business is a threat to family harmony and togetherness.

While we do not question the right of a majority owner to sell the business, we believe that individuals should get input from the rest of the family, particularly the next generation.

We believe that the families that manage this challenge proactively are best able to keep family harmony strong, throughout and after the sale.

When owners refrain from early hints or promises that the business will be passed on to the next generation, when they gain input while reserving the right to make the final decision, and when they keep the family informed of the possibility of a sale, other family members are more likely to focus on their careers than solely on their family roles or their inheritance.

Regular family meetings during the transition process can ease tension by keeping everyone informed about key decisions that might affect their lives. Most important, post-sale activities that bring all family members together, such as family retreats, foster continued family cohesiveness.

For families committed to long-term ownership and disciplined management, our bias continues to be against selling. If you sell your business, you will have money. However, you will go from holding the prize to joining the chase.

If you decide to sell for good personal, succession, strategic, or financial reasons, please remember that family businesses contain a culture that is built upon important family values. The sale of a business need not be a time to discard either the culture or its values. In fact, it is a time when those values need to be reinforced.

Perhaps the healthiest thing any family can do with the proceeds of their business sale is to gather together and say: "Look at all we've accomplished. What can we do together now?" NB

MARK YOUR CALENDAR

Nov. 4, Pittsburgh

"Should You Give an End-of-the-Year Bonus? Compensation and Performance Issues" is an offering of the Network for Family Business. Call Cindy Iannarelli at (412) 221-8924.

Nov. 5, Minneapolis

"Business Succession Planning for Minnesota Companies," sponsored by *Nation's Business* and The Cambridge Institute, a Vienna, Va., management company, will look at options for business succession and sale. Call Kim MacAdam at (703) 790-9595, Ext. 193.

Nov. 6, Washington, D.C.

"Are Children Free to Follow Their Dreams?" is a morning session featuring nationally known family-business consultant Ivan Lansberg. Call the American University Family Business Forum at (202) 885-1897.

Nov. 6-8, Scottsdale, Ariz.

"Effective Representation of Family-Held Enterprises" is an annual seminar offered by Attorneys for Family-Held Enterprises. Call (201) 488-9323.

Nov. 11-13, Orlando, Fla.

"Managing Succession Without Conflict" is a seminar featuring nationally known family-business consultants Léon A. Danco and John L. Ward. To be repeated in June. Call Ross Nager at the Arthur Andersen Center for Family Business; 1-800-924-2770.

Nov. 17, Randolph, Mass.

"Wait Till Your Father Gets Home" is a three-act interactive family-business dramatization. Call Paul I. Karofsky at the Northeastern University Center for Family Business; (781) 320-8015.

Nov. 18, Springfield, Ill.

"Live and Candid: Meeting the Whole Family's Needs" is a program featuring family-business author and consultant Ken Kaye. To be repeated Nov. 19 in Edwardsville, Ill. Call Pamela Burlingame of the Family Business Forum at Southern Illinois University Edwardsville at 1-800-692-4333.

Nov. 19, West Haven, Conn.

"A Day of Finance" will focus on doing business electronically, the future of money, business valuation, and wealth transfer. Call the University of New Haven Center for Family Business at (203) 932-7421.

Case Study: Equal Pay For Unequal Work

"It's been years of blood, sweat, and tears that I've given to this company. I've worked my butt off, and what do I get for it? A brother who comes and goes as he pleases, works as little as possible, and still makes as much as I do. And to top it off, Mom and Dad plan to split the ownership 50-50 between us, because, after all, each kid has to be treated equally!"

Does Howard's cry for help sound familiar?

Howard, 45, is president of WinDoe, an $11 million manufacturing and distribution business started by his parents 30 years ago. His brother, Norton, 37, is treasurer.

Because the company has a controller, Norton's tasks are few and far between. And when the weather turns warm, Norton rounds out his three-hour workday perfecting his golf game.

Howard's repeated attempts to get his parents to deal with the issue of Norton fall on deaf ears. They spend most of their time at their Caribbean vacation home.

"The business is doing well," Dad says. "We're making money, so what's the big deal?"

But that's not how Howard and his wife see it. They feel trapped between a comfortable lifestyle they both enjoy and a freeloading brother they don't respect. In light of his age, Howard sees that alternative career options that would support his lifestyle are limited. And with three children to educate and a big mortgage, his resentment is growing.

"What can I do?" he asks.


ILLUSTRATION: TROY THOMAS

Response 1

Make An Assessment

It would help Howard to refocus his energy temporarily on an honest assessment of his career and the business. To succeed, he will need to commit some time and build a step-by-step process. His assessment tools should include reading, self-education, and his network of business and personal contacts.

It would be useful for Howard to write a summary of the observations and action steps that emerge from each assessment.

On the personal side, Howard should evaluate career factors, including job satisfaction, job fit, and leadership issues that might be separate from the issues of the family business. The act of focusing on personal responsibilities and needs will help him modify his perspective of the business and his role in it.


PHOTO: ©STEVE WOIT

Milo Arkema, a CPA and business consultant with Lund Koehler Cox & Arkema in Minneapolis.

In his assessment of the business, Howard should focus on the big picture. In today's business climate, it is likely that WinDoe faces significant competitive and technological challenges.

Identifying those challenges and the corresponding needs and actions of the business will define the future of the company more clearly than past profits or current circumstances. In addition, it will give Howard a different way to understand and explain the cost of Norton's lack of contribution to the business.

Based on the results of each assessment, Howard should attempt a change process within the family. Obviously he should start with his father and mother as the stockholders of the business and as parents.

Presenting his personal needs and his view of the business clearly to family members will demonstrate leadership and will separate discussion of compensation and stock ownership from personal frustration.

Response 2

Plan A Retreat

Wanting to be fair, parents often confuse love and wishes for family unity with issues of management, inheritance, and leadership succession.

Such intent makes Howard the victim of a dilemma. He cannot threaten to leave WinDoe without being perceived as greedy and uncaring toward Norton and his family and without risking his comfortable lifestyle and future ownership. Yet he lacks the authority to discipline Norton. Norton knows this and takes advantage, earning a fat salary while doing a mediocre job. Mom and Dad are happy with Howard's performance, and yet, paradoxically, they endorse Norton's irresponsible work behavior with their estate plan.


PHOTO: ©HECTOR ARMEZQUITA—BLACK STAR

Salo Grabinsky, a family-business consultant and managing partner of Grabinsky, Alvarez & Associates, based in Mexico City.

This situation could be resolved if the parents changed their wills, making Howard the sole owner of WinDoe and bequeathing to Norton a legacy of similar value from other assets in their estate, or if they drafted a buy-sell agreement under which Howard would acquire WinDoe's stock from Norton after their parents die. A 50-50 ownership would only breed conflict.

Should these ideas not be acceptable to the parents, a family retreat is in order. This conflict and other unresolved issues could be aired in a relaxed setting with the help of a trusted facilitator. Then a "family constitution" could be designed to include succession and estate plans, rules for employment of family members, and other guidelines.

A last resort is for the sons to resign their operational duties, pursue outside interests, and hire a professional executive who could produce enough income and dividends to sustain the brothers' lifestyles while maximizing WinDoe's value.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Paul I. Karofsky, executive director of the Northeastern University Center for Family Business in Dedham, Mass. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. **You can comment on this case study on the World Wide Web at *www.ffi.org/forums.html*.**

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Workplace Safety

An overwhelming majority of respondents to the *Nation's Business* Where I Stand poll in September said that federal laws and regulations on workplace safety and health are administered too harshly by government inspectors. In addition, a majority said the laws and rules themselves are unfair.

Two-thirds of the respondents to the poll said a company should be exempt from penalties for a year if it corrects a health or safety hazard discovered by an independent, nongovernment inspector.

Here are the complete results of the poll:

Questions And Answers

Do you think laws and regulations on workplace safety and health are administered too harshly by government inspectors?
Yes . . . . 72% No 13%
Don't know . . . 15

Do you think the underlying laws and regulations are fair and appropriate?
Yes . . . . 25% No 62%
Don't know . . . 13

Has your business been inspected for safety by Occupational Safety and Health Administration or state officials within the past five years?
Yes . . . . 43% No 57%

Should employers be exempt from penalties for a year if they fix any health or safety hazard found by an independent, nongovernment inspector?
Yes . . . . 67% No 5%
It depends on the violation 28

Should OSHA issue a rule on repetitive-motion injuries that sets a maximum number of exertions allowed for workers in a certain time period?
Yes . . . . 18% No 61%
Don't know . . . 21

Have you or any of your employees had a serious on-the-job injury that could have been avoided by greater attention to safety?
Yes . . . . 25% No 75%

Views On Congress

On Nov. 3, voters will choose among candidates for all 435 U.S. House seats and for 34 Senate seats. These questions seek your views on the 1997-98 Congress.

Results of this poll will appear in the January issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636. To respond via the Internet, click on "Poll" at *www.nbmag.com.*

1 **How has your opinion of Congress changed in the past two years?**
1. Higher regard
2. Lower regard
3. No change

2 **Do you think the 1997-98 Congress worked hard enough on issues important to you and your company?**
1. Yes
2. No

3 **Did Congress make acceptable progress in reducing the federal tax burden on you and your business?**
1. Yes
2. No

4 **Did Congress make acceptable progress in reducing federal regulatory requirements on your business?**
1. Yes
2. No

5 **Overall, do you think Congress acted in a way that will foster continued U.S. economic growth?**
1. Yes
2. No

6 **What is the most important piece of unfinished business that should be dealt with by the new Congress?**
1. Tax reduction
2. Tax-code reform
3. Social Security reform
4. Medicare reform
5. Health-care reforms
6. Other

Send Your Response Today!

Free-Spirited Enterprise

By Michael Barrier

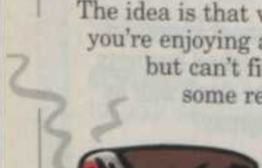
'Tis The Season—And That's The Reason

Like many other publications, *Nation's Business* gets a lot of unsolicited items in the mail, and like the small boy who's caught the frog, I feel the urge sometimes to hold them up for the world to admire.

There aren't many occasions for doing that, but with the holidays fast approaching, now seems a good time to offer a compact and slightly off-center holiday gift guide.

As I type this, I hold in my hands one item that will appeal powerfully to a significant minority among our readers and perhaps repel others. No, it's not a new compact disc by Kenny G—it's a device called the Cigar Savor (think "saver"). It's a hollow black tube with a screw-off cap and a gold clip on the side; it looks like an oversized fountain pen.

The idea is that when you're enjoying a stogie but can't finish it for some reason (maybe your spouse has entered the room waving a baseball bat), you can stow it inside the Cigar Savor and preserve it for later enjoyment.



There's an internal spring that keeps the cigar ready to pop out of the tube for a second tour of duty.

The manufacturer, a Woodbridge, Conn., company called Cigar Savor Enterprises, says that the tube reshapes the cigar's tip, too, and extinguishes the flame.

It does about everything, in fact, except relight it after you retrieve it.

No doubt that refinement is coming. In the meantime, true cigar lovers can shelter their treasures in Cigar Savors that come in leather and sterling silver (at prices ranging up to $350) as well as the plain black model (which sells for $25).

Check out Cigar Savor's World Wide Web page, at *www.cigarsavor.com*, or call the firm toll-free at 1-800-372-2069.

Safer Bagels

The Cigar Savor's inventor, Arthur Beloff (who sold the company in 1996 and now lives in Florida), has come up with another invention that I haven't seen yet but that sounds like a valuable contribution to Western civilization. It's called the Bagel Wizard Safety Bagel Slicer, and the idea is that it lets you cut a bagel in two without cutting yourself in the process.

As I think of the human suffering that such an invention will prevent, my eyes begin to water (or is someone smoking a cigar?).

Surely you've done it—picked up a bagel, grasped it firmly, and then begun cutting, oblivious of the damage that the bread knife could do to the palm of your hand.

I recall reading a *Washington Post* story a few years ago about the scores of weekend visits to emergency rooms that result from just such feckless behavior.

If Beloff's invention or some rival device catches on, maybe bagel butchery will become as rare as polio or smallpox.

You can order the Bagel Wizard Safety Bagel Slicer for $22.95 by calling Bagel Wizard's toll-free number, 1-877-639-3062.

You can also visit the firm's Web page: *www.bagelwizard.com.*

Multiple Cuts

Thinking about sharp blades reminded me of another company, called CJM Products of Franklin, N.J. It makes the Razor Saver, which sharpens razor blades. Charles J. Fletcher, the company's president, thinks it's the only product on the market "that will sharpen hand-held razors" such as the ubiquitous Gillette and Schick brands.

Use the Razor Saver, he says, and you'll be able to get many times as many shaves out of a blade as you can now. Some users, he says, report getting as many as 172 shaves from a sharpened blade.

Fletcher says that CJM has had trouble convincing people that the Razor Saver really works that well, and so, to give the product greater exposure, he wanted to package it with a Gillette or Schick razor. Not surprisingly—considering Razor Saver's possible impact on blade sales—both companies declined to sell their razors to CJM.

The Razor Saver, which sells for $9.95, is available through what Fletcher calls "select advertisements," but you can order from the company directly by calling (973) 827-4143. Ask for Lynn. There's a Razor Saver Web page, too, at *www.vitinc.com/mall/razor.* NB

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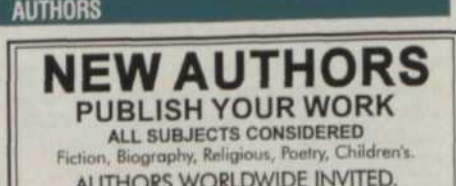

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Making It

Growing businesses share their experiences in creating and marketing new products and services.

Over-The-Top Pizza

By Mark Richard Moss

Some people like Spam on their pizza. Others appreciate pizza sprinkled with alligator and rattlesnake. Then there are those who simply enjoy a good old-fashioned pepperoni pie.

No matter how exotic or conventional one's desires, most likely they can be fulfilled at PieWorks: Pizza by Design, a chain of North Carolina restaurants whose owners are prepping to take on the world.

Started in 1990 in the wake of a franchising deal that went sour, PieWorks has, ironically, embarked on a franchising effort of its own, one that the owners believe will succeed because of the company's concept.

"We are a specialty-pizza company that provides the broadest toppings selection available," says PieWorks' president, John Weaver, who founded the Greensboro-based company with Kelly Bohlen, vice president of finance. "There's enough interest on the part of other individuals who appreciate the distinction of the concept and are interested in franchising."

What the partners believe is exportable is a menu that carries 150 toppings, including—besides those already mentioned—buffalo sausage, ostrich, hot dogs, and andouille, a Louisiana sausage. You can design your pizza or order one of the nearly 50 pies on the menu, such as the "Pepperoni Classic" or the "Diamond-Black," which features black-bean salsa and rattlesnake sausage.

PieWorks, with six restaurants in five cities, has become a $6 million operation by serving the fantasies of pizza enthusiasts.

Franchising is "going to add a different aspect to the daily operations around here in the corporate office," says Bohlen, who has been working with Weaver for 15 years, first as his employee at previous businesses and now as a partner at PieWorks. "And I think that it's going to be very exciting," she adds.

But life for Weaver and Bohlen offered a different kind of excitement eight years ago, just after they became Pizza Miracle franchisees. Pizza Miracle specialized in nutritional pizza, and Weaver and Bohlen thought the idea would fly. "But the franchisor went out of business about two weeks after we opened our first restaurant," says Weaver. "We were cast adrift. We had no guidance, no suppliers, no advertising support, and virtually no concept." Both were neophytes in the restaurant business. In 1989, Weaver had sold his chain of check-cashing stores, where Bohlen was an employee.

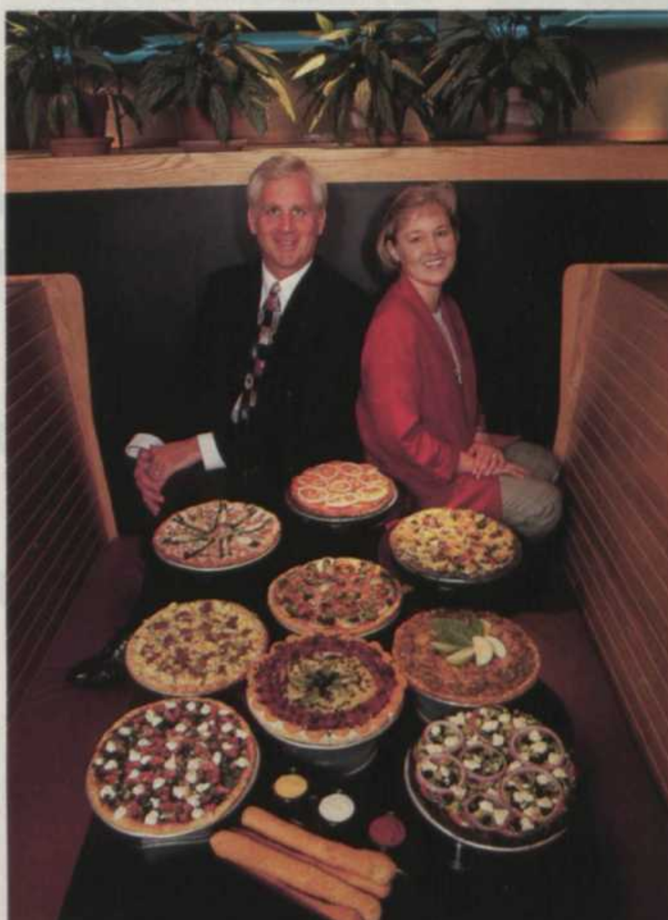

PHOTO: GLENNY COHEN

The secret *is in the toppings—scores of them—at PieWorks: Pizza by Design, a restaurant chain founded by John Weaver and Kelly Bohlen in Greensboro, N.C.*

Dennis McCreary, who was director of training and development for the Original Diet Pizza Co., Inc., Pizza Miracle's parent, says Original Diet Pizza was about to go public when an Arizona franchisee, who operated four Pizza Miracle stores, filed a lawsuit against Original Diet. That abruptly halted the U.S. Securities and Exchange Commission's approval process, and investor interest dried up. "Everybody would have made money and the franchisees would have been happy" if the stock offering had gone through, says McCreary.

Including the Greensboro restaurant, six Pizza Miracle stores were operating in three states in 1990, and Original Diet had sold franchise rights to an additional 20 or so investors. "A lot of people lost a lot of money," says Weaver, adding that his loss was considerable.

Left foundering without franchisor support, Weaver and Bohlen decided to try to recoup their losses by selling the restaurant. But in order to attract a buyer, they had to increase the establishment's sales.

"I had an epiphany," Weaver says of the moment he decided that toppings were the answer. When a customer told him that a national pizza chain didn't carry fresh tomatoes, Weaver says, he was astounded. "I had a

number of customers who really, really enjoyed having fresh tomatoes on their pizza."

Weaver and Bohlen began offering fresh vegetable toppings. Soon after, they solicited suggestions for toppings from customers, and when the list reached 35 they found that sales had increased. Four months after opening, the partners shut down Pizza Miracle and reopened the next day under the PieWorks name.

PieWorks rang up about $300,000 in sales in its first full year, a respectable figure but not enough to compensate the owners for their investment in time and money. It was late 1991, says Weaver, and "by this time I had no choice but to go on."

By early 1992, PieWorks' toppings had grown to 100, and sales continued to rise. In 1993, with $300,000 from profits and a loan guaranteed by the U.S. Small Business Administration, Weaver and Bohlen opened a second PieWorks in Greensboro, following it later that year with the opening of a third store, in Winston-Salem.

In 1995 they added their fourth store, in Cary, a suburb of Raleigh. By the end of 1996, PieWorks had stores operating in Raleigh and Durham as well.

The company's franchising program, begun in July, focuses on the Southeast and is searching for established franchisees with the capital to help with the expansion. "The initial objective," says Weaver, "has been to identify several experienced, larger franchisees who are interested in finding a concept to overlay on their current operations." ■

Mark Richard Moss is a free-lance writer in Winston-Salem, N.C.

Success Is Not A Commodity

By Michael Barrier

It's a problem faced by business people in many industries, selling everything from toothpaste to personal computers. If the market looks at your products as commodities, virtually indistinguishable from those of your competitors, how do you persuade customers otherwise?

That was the challenge Alan Bagliore faced more than 10 years ago when he founded a McHenry, Ill., company called Cypress Medical Products. It sells such things as latex gloves, crutches, and bandage rolls.

"It's a commodity product line for the most part," Bagliore says, "but commodities have different levels of quality." Commodity sellers provide different levels of service, too, and Cypress tried to set itself apart with what Bagliore calls "a tailor-made service program."

"You create problems for your customers when your shipments are late," he says, "when your shipments come in pieces, when the quality is not there, when the sales support is not there. We look at it in this light: How do we make the people we work for"—the customers, that is—"happy? You do that by removing their problems."

Bagliore, 51, is a native of New York City and has worked in the medical-products industry for more than 25 years. He moved up from taking telephone orders to increasingly responsible sales and management positions, until he decided he was tired of working for someone else.

He asked a former colleague, Varun Soni, to join him as a partner, and the credibility they had earned in the industry helped them get a line of credit for $750,000 from a bank, as well as good terms from the manufacturers, many of them foreign, whose products Cypress assembles or repackages.

Bagliore immediately got a lesson in heeding customers' wishes. His original plan for the company was "totally revamped" after his first visit to a customer, he says. "He said, 'If you want to do business with us, you will do this, this, and this' "—carrying inventory, for instance—"and our game plan went out the window."

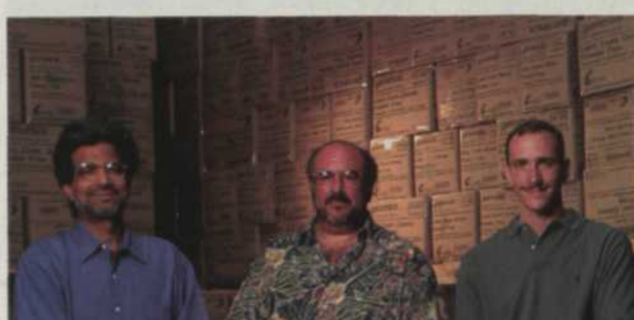

PHOTO: GROARK JOHNSON

Heeding customers' wishes *helped Alan Bagliore, center, build Cypress Medical Products, a McHenry, Ill., firm he runs with his son Eric Bagliore, president, right, and Varun Soni, vice president.*

As successful as Cypress is by most measures—it has annual sales of around $45 million and about 90 employees—Bagliore is far from satisfied. "In every industry," he says, "you have different levels. We're kind of an A-minus company now; we're going toward the top of the classifications."

What accounts for that rating, he says, is "what you can do for the customer. When you jump from a C to B, it's quality of product more than anything. When you jump from a B to an A, it's the services you can provide the customer."

Because Cypress' customers are not end users but dealers in medical supplies, the questions Cypress must ask itself include these, Bagliore says: "Can you attend their sales meetings and give their sales force what they need to succeed in selling your product? Can you come up with innovative programs for their sales force that give them an incentive to sell your product?"

Cypress now accounts for about 5 percent of the industry's sales in its major product line—examination gloves—"and less than 2 percent in our other product lines," Bagliore says, "so we have tremendous room for growth." Gloves in particular account for an expanding market, thanks to greater awareness of the need for protection from HIV and hepatitis B.

Bagliore doesn't talk like a man who will be tempted to pursue that growth recklessly. "I've had a tremendous fear of losing what I have, throughout my entire life," he says. "You build it weak, it stays weak. You build it strong, you're going to endure." ■

Capturing Earth's Moments

By Nancy Bearden Henderson

The framed images lining the gallery's brick walls are, in a word, stunning. Leopards stretch lazily in the branches of acacia trees in Tanzania. Sunlight bathes a golden, forest-flanked castle in Germany. The Great Barrier Reef rises from the blue wilderness of Australia.

It's all in Knoxville, Tenn., in a shop started by Scott West, a self-employed writer, and his wife, Bernadette, a flight attendant who had traveled the world as a child when her father was an Army colonel. The Wests were accomplished photographers when they invested their savings to open a tiny gallery in the Old City, a revitalized historic district in Knoxville, in 1993. Supporters of the environment, they called it Earth to Old City, in part because they liked the reference to "Earth."

Scott's sister, Paula West, managed the 400-square-foot, second-floor shop, which was tucked away from the main traffic flow. Scott kept the photographs coming. Bernadette oversaw long-range planning plus matting and framing, which she did in her cramped bedroom at home.

"We just followed the opportunities that arose," says Scott. "Paula's merchandising degree was the closest we got to knowing how to run a business."

The 20-something trio had only $20,000 in sales the first year. Nonetheless, Bernadette says, "we believed in it even when we weren't doing well."

To keep the business from folding, the Wests made some changes. In late 1994, they moved to a more visible, 3,200-square-foot site in an 1888 warehouse filled with other eclectic shops. They expanded their product line to include jewelry, clothing, and international gift items.

In addition, they persuaded Scott's parents, Jim and Vada West, to leave secure jobs and join the family-owned business as equal shareholders. Vada, who had been a manager at the Tennessee Valley Authority, used her keen eye for detail to create attention-getting displays and to market Scott and Bernadette's 30,000 photos. Jim, a former grocery store manager, a woodworking hobbyist, and a self-described perfectionist, did all the framing. The risk paid off: Sales in 1996 reached $310,000.

"Everyone took on a role and worked hard to be good at it," Scott says.

But other hurdles lay ahead. In the spring of 1997, a late-night shooting in Old City prompted police to warn Knoxville residents that Old City was dangerous after dark. The night following the shooting, not one customer—not even a browser—entered the Wests' shop. The district, where jazz clubs, restaurants, and trendy boutiques depend on evening business, suddenly had become a ghost town.

Once again, the Wests knew they had to do something. Paula became president of the Old City Neighborhood Association to promote the area as a family center of shopping, dining, and fun. Scott designed a *Secret History* walking-tour brochure and distributed it in hotels and other tourist venues. He collected money from neighboring businesses and bought the back-cover ad in the Knoxville visitors guide to tout the district as a vibrant, can't-miss experience. Today, the area is thriving again, and Earth to Old City is widely regarded as a cornerstone of the comeback.

PHOTO: ©DAVID LUTTRELL—MERCURY PICTURES

Family involvement *spurs the growth of Earth to Old City, a Knoxville, Tenn., gallery and gift shop started by Scott and Bernadette West, center. With them are, from left, Vada West, Antoinette Trent, Paula West, and Jim West.*

The Wests attribute their success to perseverance, a distinctive product line, patience with customers, friendly competition, and, above all, optimism. They have drawn steady media coverage from marketing efforts such as fashion shows, Beanie Baby swap meets, Earth Day scavenger hunts, and silent auctions for charity.

The family hires outside employees only during Christmas and extended vacations, which they take together despite their long, shared hours in the workplace. And they funnel their profits back into the company.

"No one takes more [pay] than they need," says Bernadette.

The Wests vote on every major decision, including merchandise selection. "We don't want to be just a retail shop," Scott says. "We want our business to say that our customers are special. They're kind of like armchair travelers. When they come in the shop, we want them to be transported somewhere else."

Sales are expected to reach $500,000 this year. As further evidence of its success, Earth to Old City was named a 1998 state honoree in the Blue Chip Enterprise Initiative Award program, sponsored by Massachusetts Mutual Life Insurance Co. (known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, and *Nation's Business*. The program recognizes firms that have met challenges.

On Memorial Day weekend, the Wests opened a second shop, in nearby Gatlinburg, Tenn. Bernadette's sister, Antoinette Trent, joined as a co-owner and helps Paula manage both stores.

Bernadette runs a third venture, an old-fashioned ice-cream parlor two doors from Earth to Old City's Knoxville location. Scott, 32, handles public relations and provides ideas for improving the business.

"We play a lot of games together, and this store is like a big game," he says. "We're all part of this game together." Grinning, his sister adds, "And we all like winning." NB

Nancy Bearden Henderson is a free-lance writer in Chattanooga, Tenn.

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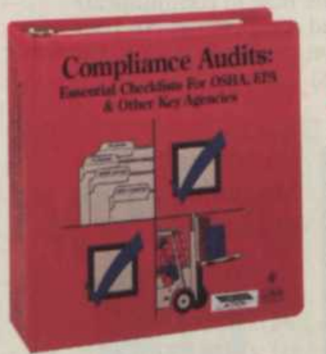

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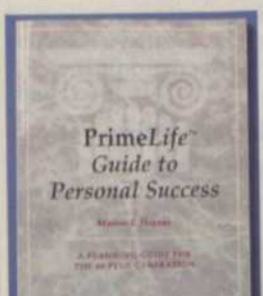

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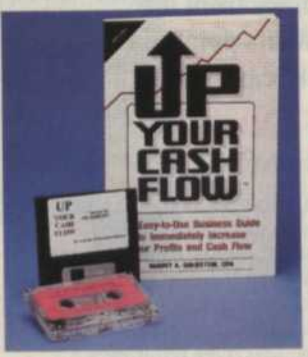

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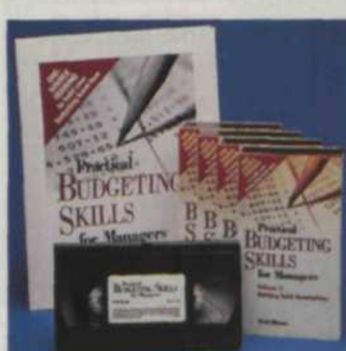

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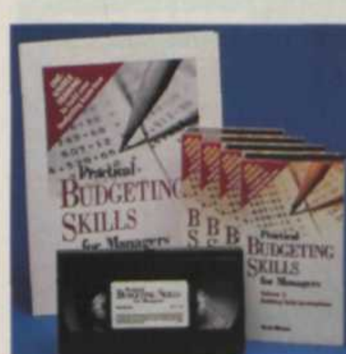

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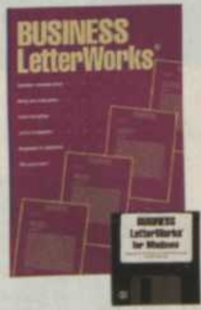

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Editorial

Give Part Of The Surplus Back To Its Creators

Democrats face formidable problems entering the November elections. One is the resurgence of the Republican Party in state and congressional elections in recent years. Another is the historical pattern in which the party holding the White House has lost seats in off-year balloting in congressional races. That vulnerability has been compounded by President Clinton's myriad troubles.

Not content with those liabilities, Clinton and the overwhelming majority of Democratic members of Congress have courted further political danger by opposing in the weeks before the election an action that clearly enjoys great support from voters—significant tax relief.

PHOTO: T. MICHAEL KEZA

"The only way to prevent the politicians from spending money is to take it away from them before they have a chance to waste it."

—Rep. Bill Archer, Chairman, House Ways and Means Committee

The president and the Democrats had two key weapons: One was a promised veto of the bill if it reached Clinton's desk. The other was a Senate rule requiring 60 votes for consideration of this measure—five more votes than the Republican majority typically commands.

The Democratic attack targeted legislation designed to provide economic stimulus that would come through tax relief for small businesses, which could put the tax savings into expansion and jobs, and through increased consumer spending as taxpayers would retain more of their earnings.

The reductions—$80 billion over five years—would have been financed with a small part of the projected federal budget surplus.

Rep. Bill Archer, R-Texas, chairman of the House Ways and Means Committee and author of the tax bill, made the case this way:

"Given the weakness in the global economy, now is exactly the time to create an economic stimulus by cutting taxes. The best way to keep our American economy strong is to let the people keep more of their money. Taxes on the American people are at the highest level in our nation's peacetime history. ... The only way to prevent the politicians from spending money is to take it away from them before they have a chance to waste it."

Archer's plan called for:

■ Raising the amount excluded from the federal estate and gift tax—currently $625,000—to $1 million as of next Jan. 1, instead of Jan. 1, 2006, the date the change is scheduled to take effect.

■ Increasing the tax deduction for health-insurance costs of the self-employed, now 45 percent, to 100 percent beginning with the 1999 tax year. Under current law, the full deduction would not be reached until 2007.

■ Raising the maximum equipment-expensing allowance of $18,500 to $25,000 as of the 1999 tax year. Present law provides for raising the allowance, which businesses may take in lieu of depreciation, to the higher figure in 2003.

■ Extending tax credits for research and for providing employment opportunities to welfare recipients, food-stamp recipients, former convicts, high-risk youths, and other targeted groups.

■ Extending refunds of duties paid on imports from developing countries.

Archer also proposed broader relief for other taxpayer categories.

Recognizing the politically charged debate over whether federal surpluses should be used for tax relief or for shoring up the Social Security system, Archer recommended establishment of a Protect Social Security Account that would be guaranteed 90 percent of the total annual budget surplus for fiscal 1998 through 2008. That total is now estimated at $1.6 trillion.

The new Social Security account would help assure the long-range solvency of the retirement system. Opponents of using even a small part of the surplus for tax relief insist that all of the excess revenue be committed to Social Security.

Archer offered a solid reason that President Clinton and the congressional Democrats who refused to support Archer's bill should keep in mind when major tax-relief legislation comes before them again:

"This bill is fully paid for ... by the tax dollars that hard-working, overtaxed Americans sent to Washington. It's their income-tax payments that created the surplus in the first place." NB

THE BUSINESS ADVOCATE

SUPPLEMENT TO Nation'sBusiness NOVEMBER 1998

PUBLISHED BY U.S. CHAMBER OF COMMERCE
www.uschamber.org

WHAT'S HOT

Election Endorsements

The U.S. Chamber has endorsed nearly 300 candidates in congressional races for the Nov. 3 elections. To see if the organization has endorsed a candidate in your congressional district or Senate race—if one is taking place in your state—turn to Pages 5A-7A.

Lobbyist Team Grows

The Chamber has strengthened its clout and visibility on Capitol Hill by adding muscle to its lobbying team. Six new lobbyists were added recently, bringing to 16 the number of full-time Chamber lobbyists representing members' interests in Washington.

Tax-Credit Efforts

Congress was poised to approve Chamber-backed legislation to extend several important tax credits. Details, Page 3A.

Challenges In Court

The Chamber's National Chamber Litigation Center has weighed in on three important business-related cases before the U.S. Supreme Court, which began its 1998-99 term Oct. 5. Details, Page 4A.

Chamber Advances Agenda

Congress Acts On Critical Bills

The U.S. Chamber of Commerce won significant legislative battles in the month before Congress adjourned even while Congress was focusing much of its attention on the issue of whether to pursue a presidential impeachment inquiry.

Those victories included:

■ Advancement of a tax-credit measure. (See separate story, Page 3A.)

■ Passage of a bill to help ease the worker shortage by increasing the number of visas for highly skilled immigrants.

■ Defeat of a proposed increase in the minimum wage.

■ Inclusion of measures in a 1999 appropriations bill that would restrict spending by the Environmental Protection Agency on certain programs that concern business.

■ Senate passage of a bill that would reform the bankruptcy laws and provide relief to creditors, including many small businesses.

■ Delay in the implementation of an immigration-law provision that could lead to clogged borders.

■ Advancement of a temporary ban on taxation of transactions over the Internet.

■ Derailment of Chamber-opposed bills that would weaken managed-care health programs.

Here are details on the key bills:

Highly Skilled Immigrants

Congress moved to ease the country's worker shortage by passing legislation to increase the number of visas for highly skilled immigrants.

The House voted in late September to raise the cap on H-1B visas, which allow foreign specialty-occupation workers to be employed in the United States for up to six years. The Senate approved a similar bill in mid-May.

That's when the annual ceiling of 65,000 H-1B visas was reached.

The House bill would increase H-1B visas to 115,000 for fiscal 1999 and 2000; the cap would be 107,500 for fiscal 2001 and would revert to 65,000 a year beginning in fiscal 2002.

Senators were expected to accept the House measure and send it to President Clinton before Congress adjourned. Clinton had said he would sign the legislation into law.

Minimum Wage

In a major victory for the Chamber and its members, the Senate re-

Continued On Page 2A

Business-Related Bills Near Decisions

Continued From Page 1A

cently defeated a proposal to increase the federal minimum wage.

Lawmakers voted 55-44 on Sept. 22 against a measure that would have raised the wage floor to $6.15 an hour

from its current $5.15. The rate would have increased to $5.65 on Jan. 1, 1999, and to $6.15 on Jan. 1, 2000.

Increases in the minimum wage typically have a domino effect, pushing up wages that are higher on the pay scale. The Chamber has consistently opposed increases in the federal minimum wage.

Environmental Programs

Congress accepted amendments to a funding bill for several federal agencies that would prohibit the U.S. Environmental Protection Agency from using funds on programs related to a United Nations climate treaty and the EPA's environmental-justice policy.

The latter is based on the premise that minorities and the poor have been subject to environmental discrimination because industrial facilities are more likely to be sited in their neighborhoods than in other areas.

Environmental and citizens groups have filed dozens of complaints with the EPA in an effort to stop construction of plants in minority and poor neighborhoods.

The U.N. climate treaty, signed by the Clinton administration but not yet ratified by the U.S. Senate, requires developed nations to drastically cut their emissions of so-called greenhouse gases, which some scientists suspect are causing temperatures to rise worldwide. Other scientists contend that global temperatures are not rising and that there is no link between greenhouse gases and temperatures. The Chamber says that the emissions cuts called for in the U.N. treaty would wreck the U.S. economy.

It was unclear at press time whether Clinton would sign or veto the spending bill.

Bankruptcy Reform

The fate of a compromise bankruptcy-reform bill that would provide relief to creditors remained uncertain at press time.

Conference committee members reconciled differences between House- and Senate-passed bills that would make it more difficult to file under Chapter 7 of the bankruptcy law. Chapter 7 allows individuals and firms to walk away from nearly all their debts regardless of their ability to repay. Other bankruptcy chapters, such as Chapters 11 and 13, require some repayment of debt.

While House lawmakers were expected to accept the compromise bill, some Senate Democrats and President Clinton opposed it.

Border Disruption

Congress was expected to address before adjournment a provision in a 1996 immigration law that could lead to clogged U.S. border-crossing points.

Lawmakers delayed by two weeks the Sept. 30 effective date for the provision, Section 110 of the Immigration Reform and Immigrant Responsibility Act of 1996.

At press time, they were considering up to a two-year delay in implementation of the provision, which would require every border-entry point in the United States to have an automated entry-exit control system to collect data on every alien.

The delay would be used to conduct a feasibility study on automated entry-exit control systems.

The Chamber says that the U.S. Immigration and Naturalization Service does not have the technology or capability to implement the Section 110 requirements.

Health Care

Lawmakers seemed unlikely to approve a broad anti-managed-care bill as the congressional session neared an end. The Chamber hailed the inaction as a victory against government health-care mandates.

Two Senate bills would have imposed a host of new health-care mandates on employers and expanded medical-malpractice liability from health-care professionals to health-in-

surance carriers and employers who provide coverage.

Although the bills were not expected to pass the Senate, certain provisions, including ones dealing with emergency-room care and minimum hospital stays for mastectomy patients, could be attached to a fiscal-year-end funding bill known as a continuing resolution.

Internet Taxes

The Senate passed a bill that would impose a two-year moratorium on the collection of taxes by states and localities on transactions made over the Internet.

The House measure would impose a three-year ban but would allow existing Internet taxes to remain in place. At press time, House and Senate conferees were trying to reach a compromise between their respective bills.

Election Forecast


PHOTO: T. MICHAEL KEZA

Political analyst Charlie Cook told business leaders at a Sept. 16 Policy Insiders meeting at the U.S. Chamber that he expects Republicans to gain 10 to 15 seats in the House and up to five seats in the Senate in the Nov. 3 elections. Cook's address can be viewed on the Chamber's ChamberCast site at www.chambercast.com.

FACT FILE

The median number of years that employees had been with their current employer was 3.6 in February 1998. About one-fourth of workers age 16 or older had been with their current employer for 12 months or less. Among occupational groups, managers and professionals had the highest median tenure, 4.8 years, while service workers had the lowest, 2.4 years.

—*U.S. Department of Labor, Bureau of Labor Statistics*

In 1996, private-sector employers of all sizes provided child-care benefits to one out of every 25 workers. In firms with fewer than 100 employees, only one out of every 50 employees received child-care assistance.

—*U.S. Department of Labor, Bureau of Labor Statistics*

During 1995-96, the latest year for which figures are available, the fastest-growing state economies were Utah (8.3 percent), Nevada (7.8), Delaware (6.3), and Oregon and New Hampshire (5.9 each). The slowest-growing were Alaska (-5.6 percent), Hawaii (-0.1), Rhode Island (0.2), and Wyoming and Idaho (1.6 each).

—*U.S. Department of Commerce, Bureau of Economic Analysis*

Key Tax Credits Near Approval

Congress was set at press time to approve legislation strongly supported by the U.S. Chamber to extend several important business tax credits.

The two most prominent credits in the $6.1 billion bill are the research-and-experimentation and Work Opportunities credits. Both expired June 30, 1998. The legislation would extend them until Feb. 29, 2000.

The latter allows companies to take a credit against taxes owed for hiring certain individuals, such as those on welfare.

The research-and-experimentation credit is based on a percentage of R&E spending over a base amount.

The tax-credits bill was being considered after a more comprehensive five-year $80 billion tax-cut measure, known as the Taxpayer Relief Act of 1998, was shelved by Senate Republican leaders. The measure had been approved by the House in late September, but most Senate Democrats and President Clinton opposed the plan, claiming it would jeapordize efforts to "save" Social Security.

Tax-cut provisions in the House-approved $80 billion package, which the Chamber supported, would have:

- Increased the $625,000 lifetime exemption from the federal estate tax to $1 million beginning in 1999. The exemption is scheduled to rise in steps to $1 million by 2006.
- Allowed self-employed individuals to deduct 100 percent of their health-insurance costs beginning Jan. 1, 1999. The deduction, which is 45 percent for 1998, is set to rise gradually to 100 percent by Jan. 1, 2007.
- Allowed small businesses to deduct from their taxable income up to $25,000 for the cost of certain capital equipment beginning Jan. 1, 1999. The expensing provision, which currently is $18,500 a year, is scheduled to rise gradually to $25,000 by Jan. 1, 2003.

The bill also contained provisions extending the expired tax credits and would have eliminated the so-called marriage penalty, which requires two-earner couples who file joint returns to pay more income tax than two single taxpayers or single-earner couples.

Chamber Weighs In On Key Supreme Court Cases

The National Chamber Litigation Center (NCLC), the public-policy law firm of the U.S. Chamber, is working on behalf of business in three important cases before the U.S. Supreme Court.

The court began its 1998-99 term Oct. 5 and is expected to rule on the cases before its term ends next July. The Chamber litigation center has filed briefs on behalf of business on matters involving collective-bargaining agreements, contractor suits against the federal government, and the use of expert testimony in court cases.

Here are summaries of the cases:

Collective Bargaining

The NCLC is urging the Supreme Court to overturn its 1974 decision holding that employees covered by a collective-bargaining agreement that includes a mandatory-arbitration clause for employment disputes can, nonetheless, sue an employer under

Title VII of the 1964 Civil Rights Act or any other federal anti-discrimination statute.

In the case, *Wright vs. Universal Maritime Service Corporation*, Ceasar Wright sued his employer in federal court under the Americans with Disabilities Act even though his union contract contained a mandatory-arbitration clause for the settlement of all employment disputes.

In its brief, the NCLC states that "Congress and the court have increasingly favored the arbitration of statutory claims, including employment discrimination."

Contractor Lawsuits

In *United States vs. Blue Fox, Inc.*, the NCLC is supporting the ability of a contractor to sue the federal government for relief other than monetary damages but including the payment of money.

Blue Fox, a construction firm that was a subcontractor to a government contractor, sued the federal government under the Administrative Procedure Act (APA) for money that the prime contractor owed it. A U.S. District Court threw out the case, noting that the APA does not allow the government to be sued for "money damages." The APA contains a waiver of the U.S. government's sovereign immunity against lawsuits, except for suits seeking money damages such as compensatory damages.

The U.S. Court of Appeals for the 9th Circuit in San Francisco reversed the District Court's ruling, concluding that the relief sought by Blue Fox was "specific relief" and not money damages.

The NCLC is asking the Supreme Court to uphold the Court of Appeals' decision.

Expert Testimony

The Chamber litigation center is urging the high court to apply an earlier ruling on expert testimony to "engineering" testimony.

In the case, *Kumho Tire Company vs. Carmichael*, the injured plaintiffs have claimed that a manufacturing or design defect in a tire caused their auto accident. They offered as proof the testimony of a mechanical engineer.

A trial judge excluded the engineer's testimony and threw out the case because it did not meet criteria outlined by the U.S. Supreme Court. The high court had ruled in *Daubert vs. Merrell Dow Pharmaceuticals, Inc.* in 1993 that trial judges should determine the admissibility of expert testimony based on whether it:

- Can be tested.
- Has been subject to peer review and publication.
- Has a known or potential rate of error.
- Commands general acceptance in the scientific community.

The U.S. Court of Appeals for the 11th Circuit in Atlanta reinstated the case and ruled that the plaintiffs' expert was not a scientific expert who relied on scientific principles.

In its brief to the Supreme Court, the NCLC argues that the criteria set forth in *Daubert* "are not merely standards for the admission of *scientific* expert testimony"; they are "standards which should be considered by courts in evaluating the reliability of *all forms of expert testimony*."

Chamber Makes Final Endorsements

The U.S. Chamber is urging its members to vote on Election Day for candidates who support free enterprise, fewer regulations, lower taxes, and a smaller federal government.

The business federation has endorsed 291 candidates—20 for the U.S. Senate and 271 for the U.S. House of Representatives—for election on Nov. 3.

"Although there are pro-business majorities in both houses in this Congress, they have been too slim to assure pro-business outcomes on critical legislation in all instances, and so it is important to increase those margins substantially in the next Congress," says Thomas J. Donohue, president and CEO of the Chamber. "Business owners should also encourage their employees to register to vote and to vote on Election Day."

All endorsements are recommended and reviewed by the Chamber's Public Affairs Committee and approved by the business federation's board of directors.

Following is the complete list of candidates for the Senate and House who have been endorsed by the Chamber.

Current members of the House and Senate running for re-election or House members running for the Senate appear with their Chamber vote rating, a percentage based on the times they have voted in favor of the Chamber position on selected issues important to business.

Endorsed Senate candidates are listed by state; House candidates are listed by congressional district within states.

For more information about the Chamber's political program, call Doug Loon, director of congressional and public affairs, at (202) 463-5600.

ENDORSED SENATE

Incumbents

ALASKA

Frank H. Murkowski (R)	84%

ARIZONA

John McCain (R)	86

GEORGIA

Paul Coverdell (R)	94

IOWA

Charles E. Grassley (R)	81

KANSAS

Sam Brownback (R)	98

MISSOURI

Christopher "Kit" S. Bond (R)	91

NEW HAMPSHIRE

Judd Gregg (R)	89

NEW YORK

Alfonse D'Amato (R)	67

NORTH CAROLINA

Lauch Faircloth (R)	81

OKLAHOMA

Don Nickles (R)	90

UTAH

Robert Bennett (R)	96

Challengers

CALIFORNIA

Matt Fong (R)

ILLINOIS

Peter Fitzgerald (R)

NEVADA

Rep. John Ensign (R)	89

SOUTH CAROLINA

Rep. Bob Inglis (R)	84

WASHINGTON

Rep. Linda Smith (R)	83

WISCONSIN

Rep. Mark Neumann (R)	86

Open Seats

IDAHO

Rep. Michael Crapo (R)	89

KENTUCKY

Rep. Jim Bunning (R)	89

OHIO

Gov. George Voinovich (R)

ENDORSED HOUSE OF REPRESENTATIVES

Incumbents

ALABAMA

1	Sonny Callahan (R)	91%
2	Terry Everett (R)	88
3	Bob Riley (R)	78
4	Robert B. Aderholt (R)	80
6	Spencer Bachus (R)	93

ALASKA

AL	Don Young (R)	70

ARIZONA

1	Matt Salmon (R)	85
3	Bob Stump (R)	89
4	John Shadegg (R)	89
5	Jim Kolbe (R)	95
6	J.D. Hayworth (R)	95

ARKANSAS

3	Asa Hutchinson (R)	90
4	Jay Dickey (R)	89

CALIFORNIA

2	Wally Herger (R)	92
4	John Doolittle (R)	86
11	Richard Pombo (R)	86
15	Tom Campbell (R)	81
18	Gary Condit (D)	61
19	George P. Radanovich (R)	91
20	Cal Dooley (D)	67
21	William M. Thomas (R)	94
23	Elton Gallegly (R)	93
25	Howard "Buck" McKeon (R)	98
27	James E. Rogan (R)	80
28	David Dreier (R)	93
38	Steve Horn (R)	82
39	Edward Royce (R)	88
40	Jerry Lewis (R)	82
43	Ken Calvert (R)	100
45	Dana Rohrabacher (R)	87
47	Christopher Cox (R)	86
48	Ron Packard (R)	92

49 Brian Bilbray (R) 90
51 Randy Cunningham (R) 92
52 Duncan Hunter (R) 86

COLORADO

3 Scott McInnis (R) 90
4 Bob Schaffer (R) 90
5 Joel Hefley (R) 90

ENDORSED

CONNECTICUT

6 Nancy L. Johnson (R) 71

DELAWARE

AL Michael Castle (R) 92

FLORIDA

1 Joe Scarborough (R) 84
2 F. Allen Boyd Jr. (D) 80
4 Tillie Fowler (R) 91
6 Cliff Stearns (R) 79
7 John Mica (R) 93
8 Bill McCollum (R) 90
9 Michael Bilirakis (R) 84
10 C.W. Bill Young (R) 81
12 Charles Canady (R) 94
13 Dan Miller (R) 95
14 Porter J. Goss (R) 87
15 David Weldon (R) 89
16 Mark Foley (R) 97
18 Ileana Ros-Lehtinen (R) 74
21 Lincoln Diaz-Balart (R) 73
22 E. Clay Shaw Jr. (R) 87

GEORGIA

1 Jack Kingston (R) 88
3 Michael "Mac" Collins (R) 86
6 Newt Gingrich (R) 90
7 Bob Barr (R) 90
8 Saxby Chambliss (R) 96
9 Nathan Deal (R) 87
10 Charles Norwood (R) 97
11 John Linder (R) 98

IDAHO

1 Helen Chenoweth (R) 83

ILLINOIS

6 Henry J. Hyde (R) 86
8 Philip M. Crane (R) 88
10 John Edward Porter (R) 85
11 Jerry Weller (R) 89
14 J. Dennis Hastert (R) 92
15 Thomas Ewing (R) 92
16 Donald Manzullo (R) 93
18 Ray LaHood (R) 85
20 John M. Shimkus (R) 80

INDIANA

2 David McIntosh (R) 89
4 Mark Souder (R) 82
5 Steve Buyer (R) 99
6 Dan Burton (R) 87
7 Edward A. Pease (R) 90
8 John N. Hostettler (R) 84

IOWA

1 Jim Leach (R) 73
2 Jim Nussle (R) 95
3 Leonard L. Boswell (D) 70
4 Greg Ganske (R) 88
5 Tom Latham (R) 99

KANSAS

1 Jerry Moran (R) 90
2 Jim R. Ryun (R) 100
3 Vincent K. Snowbarger (R) 100
4 Todd Tiahrt (R) 95

KENTUCKY

1 Edward Whitfield (R) 98
2 Ron Lewis (R) 86
3 Anne M. Northup (R) 100
5 Harold Rogers (R) 81

LOUISIANA

1 Bob Livingston (R) 88
3 W. J. "Billy" Tauzin (R) 77
4 Jim McCrery (R) 95
5 John C. Cooksey (R) 100
6 Richard H. Baker (R) 95
7 Chris John (D) 100

MARYLAND

1 Wayne Gilchrest (R) 92
2 Robert Ehrlich Jr. (R) 91
6 Roscoe Bartlett (R) 94
8 Connie Morella (R) 60

MICHIGAN

2 Peter Hoekstra (R) 95
3 Vernon Ehlers (R) 93
4 Dave Camp (R) 96
6 Fred Upton (R) 93
7 Nick Smith (R) 92
11 Joseph Knollenberg (R) 95

MINNESOTA

1 Gil Gutknecht (R) 98
3 Jim Ramstad (R) 87
7 Collin Peterson (D) 59

MISSISSIPPI

1 Roger Wicker (R) 99
3 Charles "Chip" Pickering Jr. (R) 90

MISSOURI

2 James Talent (R) 92
7 Roy Blunt (R) 90
8 Jo Ann H. Emerson (R) 90
9 Kenny C. Hulshof (R) 90

MONTANA

AL Rick A. Hill (R) 80

NEBRASKA

1 Doug Bereuter (R) 86
3 Bill Barrett (R) 93

NEVADA

2 James A. Gibbons (R) 80

NEW HAMPSHIRE

1 John E. Sununu (R) 100
2 Charles Bass (R) 95

NEW JERSEY

2 Frank A. LoBiondo (R) 76
3 Jim Saxton (R) 81
5 Marge Roukema (R) 74
7 Bob Franks (R) 87
11 Rodney Frelinghuysen (R) 88
12 Michael Pappas (R) 70

NEW MEXICO

1 Heather Wilson (R)*
2 Joe Skeen (R) 86
3 Bill Redmond (R) 100

NEW YORK

1 Michael P. Forbes (R) 71
2 Rick Lazio (R) 85
3 Peter King (R) 71
13 Vito Fossella (R)**
19 Sue W. Kelly (R) 83
22 Gerald B.H. Solomon (R) 80
24 John McHugh (R) 82
25 James T. Walsh (R) 77
30 Jack Quinn (R) 81
31 Amo Houghton (R) 84

NORTH CAROLINA

2 Bob Etheridge (D) 70
3 Walter Jones Jr. (R) 90
5 Richard M. Burr (R) 91
6 Howard Coble (R) 90
7 Mike McIntyre (D) 80
9 Sue Myrick (R) 93
10 Cass Ballenger (R) 94
11 Charles H. Taylor (R) 88

OHIO

1 Steve Chabot (R) 95
2 Rob Portman (R) 95
4 Michael G. Oxley (R) 93
5 Paul E. Gillmor (R) 84
7 David Hobson (R) 88
8 John A. Boehner (R) 93
12 John R. Kasich (R) 89
15 Deborah Pryce (R) 95
16 Ralph Regula (R) 76
18 Bob Ney (R) 85
19 Steven C. LaTourette (R) 91

OKLAHOMA

1 Steve Largent (R) 92

2 Tom Coburn (R) 85
3 Wes Watkins (R) 56
4 J.C. Watts (R) 96
5 Ernest Istook Jr. (R) 92
6 Frank D. Lucas (R) 95

PENNSYLVANIA

5 John E. Peterson (R) 100
7 Curt Weldon (R) 77
8 Jim Greenwood (R) 90
9 Bud Shuster (R) 87
13 Jon D. Fox (R) 85
16 Joseph R. Pitts (R) 100
17 George W. Gekas (R) 90
19 William F. Goodling (R) 79
21 Philip S. English (R) 83

SOUTH CAROLINA

1 Mark Sanford Jr. (R) 78
2 Floyd Spence (R) 85
3 Lindsey Graham (R) 95

SOUTH DAKOTA

AL John R. Thune (R) 90

TENNESSEE

1 William L. Jenkins (R) 100
2 John J. Duncan Jr. (R) 81
3 Zach Wamp (R) 88
4 Van Hilleary (R) 95
7 Ed Bryant (R) 100
8 John Tanner (D) 62

TEXAS

1 Max A. Sandlin (D) 70
2 Jim Turner (D) 80
3 Sam Johnson (R) 95
4 Ralph M. Hall (D) 75
5 Pete Sessions (R) 90
6 Joe Barton (R) 90
7 Bill Archer (R) 92
8 Kevin P. Brady (R) 100
12 Kay Granger (R) 100
13 William "Mac" Thornberry (R) 98
14 Ron E. Paul (R) 73
17 Charles W. Stenholm (D) 79
19 Larry Combest (R) 92
21 Lamar S. Smith (R) 92
22 Tom DeLay (R) 93
23 Henry Bonilla (R) 97
26 Richard K. Armey (R) 96

UTAH

1 James V. Hansen (R) 92
2 Merrill Cook (R) 80
3 Christopher Cannon (R) 90

VIRGINIA

1 Herbert H. Bateman (R) 87
5 Virgil H. Goode Jr. (D) 80
6 Bob Goodlatte (R) 96
7 Thomas J. Bliley Jr. (R) 94
10 Frank R. Wolf (R) 81
11 Thomas M. Davis III (R) 94

WASHINGTON

1 Rick White (R) 96
2 Jack Metcalf (R) 76
4 Doc Hastings (R) 100
5 George R. Nethercutt Jr. (R) 98
8 Jennifer Dunn (R) 98

WISCONSIN

6 Thomas E. Petri (R) 77
9 F. James Sensenbrenner Jr. (R) 81

WYOMING

AL Barbara Cubin (R) 90

Challengers

CALIFORNIA

10 Charles Ball (R)
22 Tom Bordonaro (R)
24 Randy Hoffman (R)
42 Elia Pirozzi (R)
46 Bob Dornan (R)

CONNECTICUT

5 Mark Nielsen (R)

HAWAII

1 Gene Ward (R)

ILLINOIS

12 Bill Price (R)
17 Mark Baker (R)

INDIANA

10 Gary Hofmeister (R)

MAINE

1 Ross Connelly (R)

MASSACHUSETTS

3 Matt Amorello (R)
6 Peter Torkildsen (R)

MICHIGAN

10 Brian Palmer (R)
12 Leslie Touma (R)

NEW JERSEY

6 Mike Ferguson (R)
8 Matt Kirnan (R)

NEW YORK

26 Bud Walker (R)
29 Chris Collins (R)

NORTH CAROLINA

12 Scott Keadle (R)

NORTH DAKOTA

AL Kevin Cramer (R)

OHIO

6 Nancy Hollister (R)
13 Grace Drake (R)

OREGON

5 Marilyn Shannon (R)

SOUTH CAROLINA

5 Mike Burkhold (R)

TEXAS

24 Shawn Terry (R)
25 John Sanchez (R)

WISCONSIN

8 Mark Green (R)

Open Seats

CALIFORNIA

3 Doug Ose (R)
36 Steve Kuykendall (R)
41 Gary Miller (R)

COLORADO

2 Bob Greenlee (R)
6 Tom Tancredo (R)

IDAHO

2 Mike Simpson (R)

ILLINOIS

13 Judy Biggert (R)

INDIANA

9 Jean Leising (R)

KENTUCKY

6 Earnest Fletcher (R)

MISSISSIPPI

4 Delbert Hoseman (R)

NEBRASKA

2 Lee Terry (R)

NEVADA

1 Don Chairez (R)

NEW YORK

22 John Sweeney (R)
27 Tom Reynolds (R)

NORTH CAROLINA

8 Robin Hayes (R)

OREGON

1 Molly Bordonaro (R)
2 Greg Walden (R)

PENNSYLVANIA

10 Don Sherwood (R)
15 Pat Toomey (R)

SOUTH CAROLINA

4 Jim DeMint (R)

WASHINGTON

3 Don Benton (R)

WISCONSIN

1 Paul Ryan (R)
2 Jo Musser (R)

** Current member of Congress completing the term of the late Rep. Steven Schiff, R-N.M.*

*** Current member of Congress completing the term of former Rep. Susan Molinari, R-N.Y., who resigned to pursue a journalism career.*

Here are some of the most important products, services, and programs offered by the U.S. Chamber.

Video Available On Year 2000 Computer Glitch

The U.S. Chamber and the American Bankers Association have collaborated to produce a videotape that provides information on the year 2000 problem that many computers are expected to experience.

The video contains an overview of the problem and how it could affect companies' expansion plans.

Titled "Your Business, Your Bank and the Year 2000," the video costs $49.95. It can be ordered by calling 1-800-338-0626, or by visiting the Chamber's Web site at *www.uschamber.org/programs/y2kvideo.html*. Mention customer code ZBBQW861 when ordering.

Discounts On IBM Computers

Chamber members can receive rebates on the purchase of certain computers from IBM Corp.

To be eligible for the rebates, Chamber members must purchase the equipment through an authorized IBM Business Partner by Dec. 31.

For more information about the rebate program or to locate an IBM Business Partner, call 1-800-426-7255, Ext. 5101.

Retirement Plans At A Discount

Affordable, accessible, and convenient retirement plans are available to Chamber members through the U.S. Chamber and Fidelity Investments.

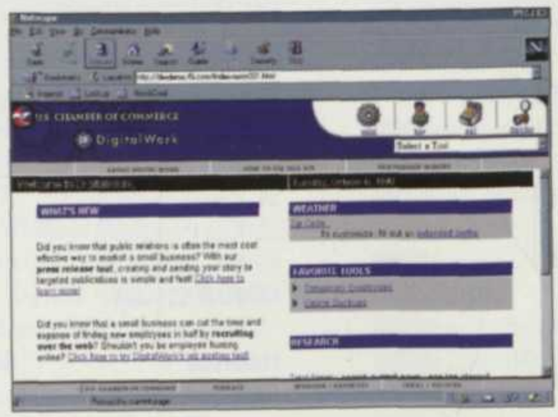
Fidelity has a package of retirement plans and services that are offered at a discount to Chamber members.

Fidelity provides investment-management and record-keeping services as well as materials that employers can use to communicate with employees about the plans.

For more information, call Fidelity toll-free at 1-888-RET-PLAN (1-888-738-7526).

Easy-To-Use Online Services For Busy Business Owners

Meeting the bare-minimum requirements for running a small business successfully—dealing with customers, suppliers, employees, inspectors, mounds of paperwork, and the like—can be all-consuming. So some worthwhile but nonessential chores, such as generating favorable publicity, often wind up on the back burner.



But the U.S. Chamber and DigitalWork of Rolling Meadows, Ill., have teamed up to offer harried business people a manageable way to handle important but often-neglected business tasks.

The tool being offered is an online service that enables business people to harness the power of the Internet to create and distribute press releases about their companies, products, and services.

The service also can be used to tackle other productivity-enhancing, money-saving tasks that include creating direct-mail campaigns, advertising job openings, and managing human resources, finances, and marketing operations.

U.S. Chamber members receive a discount on the programs they use.

The service can be reached on the Internet at *www.usccwork.com* or by calling 1-877-DIG-WORK (1-877-344-9675).

Workers' Comp Guide Now Available

The Chamber's *1998 Analysis Of Workers' Compensation Laws*, a publication widely anticipated by many businesses, is available for $15 to U.S. Chamber members and $25 to nonmembers.

The analysis contains comprehensive information on the workers' comp laws in the 50 states, the District of Columbia, U.S. territories, and the Canadian provinces.

For each jurisdiction, the 1998 analysis includes information on insurance requirements and allowances, injury reporting and claim filing, and how to appeal decisions made under state workers' comp laws.

Bulk-order discounts are available. To order, write to the U.S. Chamber of Commerce, Domestic Policy Publications, 1615 H Street, N.W., Washington, D.C. 20062-2000, or call 1-800-352-1450.